

PAGE 250

250

1 which, again, is what he had the primary  
2 responsibility, was that there was some consideration  
3 being given to moving reserves from the Graduate  
4 hospitals to the Delaware Valley hospitals to cover  
5 the bad debt shortfall.

6 And Mark asking how much Dan thought was  
7 going to be involved in those transfers.

8 And Dan saying that he thought it was  
9 somewhere in the neighborhood of at least \$50 million.

10 And Mark didn't seem shocked or surprised  
11 by the idea or the amount, and said that he would  
12 discuss it with Bill Buettner, and they would get back  
13 to Dan.

14 Q "They" meaning he and Bill?

15 A He and/or he or. That somebody would get  
16 back to Dan.

17 Q Either Mr. Kirstein or Bill Buettner?

18 A Right, correct.

19 Q Do you recall anything you had to say about  
20 the topic?

21 A No, because, again, it wasn't -- it was  
22 eastern driven.

23 Q Do you recall anything more about the topic  
24 being said at the time?

25 A No, other than when Dan and I got out of

PAGE 252

252

1 '97 to help reduce the bad debt reserve shortfall that  
2 had increased to 62.3 million as March 31, 1997.  
3 Coopers & Lybrand has accepted this proposal to  
4 transfer the 50 million of reserves from Graduate."

5 Q What exhibit are you reading from?

6 A 1531.

7 Q Did you get a copy of that?

8 A This memo?

9 Q Yes.

10 A Yes.

11 Q At or about the time it's dated?

12 A Yes.

13 Because if you remember, we talked. At the  
14 top is a handwritten note from David McConnell --

15 Q Right.

16 A -- to me on June 16th.

17 Q So was that the first time -- I think what  
18 you're telling us is, that is the first time you  
19 learned that -- the fact you were surprised -- I'm  
20 sorry.

21 That is the first time you learned that  
22 Coopers & Lybrand had approved of the transfer?

23 A Yes.

24 Although I had surmised that because the  
25 entries were made.

PAGE 251

251

1 there, I was like, "I'd be surprised if they let  
2 you" -- "if they approve moving that."

3 Q And then you, in your comment, to Dan --  
4 you told Dan that after the lunch?

5 A Yep.

6 Q Yep?

7 A Yes.

8 Q And you mean -- the "they" in that sentence  
9 was Coopers & Lybrand?

10 A That I was surprised that they would --

11 Q That they would have approved?

12 A -- concur with the transfer of those  
13 reserves, yes.

14 Q What I'm saying is, when you say "they,"  
15 you mean Coopers & Lybrand?

16 A That's correct.

17 And then I did not hear -- hear about the  
18 issue again until roughly -- and it's one of the memos  
19 that you pulled out from Russ Laing, and the statement  
20 in here, it's the Russ Laing memorandum of June 10th,  
21 from Dan to Russ, Dan Cancelmi to Russ Laing.

22 It says, "A creative was recently developed  
23 to record \$50 million in reserves on various Graduate  
24 entities which were subsequently transferred to the  
25 Delaware Valley hospitals during March and April of

PAGE 253

253

1 Now, when it said in the March 18 close --  
2 if you remember, a month end is always closed  
3 afterwards.

4 So those entries would not have been made  
5 until sometime after March or April.

6 So that brings them potentially into the  
7 May -- May arena, and this memo is dated early June,  
8 that I assume, based on the fact that those entries  
9 were made, that Coopers had -- had given the okay, or  
10 that they were okay with that transfer.

11 Q So to put it differently, you were betting  
12 what was wrong on whether Coopers would approve?

13 MR. RYAN: Objection.

14 A Correct.

15 Q I'm going to ask you to flip back to  
16 another, Exhibit 1063, which are the compilation of  
17 notes from -- we believe from Mr. Cepielik's files, at  
18 least by Coopers & Lybrand in this case.

19 I'm sorry. I'm going to refer you again,  
20 Mr. Adamczak, to Bates range -- or, Bates page 147599,  
21 and to a paragraph later in the page than the one we  
22 you referred to earlier, where it says, "recalls a  
23 50 million" -- "recalls," I think the translation is,  
24 "50 million of reserves was originally introduced by  
25 Dan Cancelmi to Mark Kirstein, who indicated he

SHEET 33 PAGE 254

254

1 thought it was okay, but wanted to run it up a  
2 flagpole."

3 Do you see that?

4 A Yes.

5 Q And is -- does this note refer to you

6 telling Mr. Cepielik, or somebody at

7 PricewaterhouseCoopers, about the Tambellini's

8 conversation we just discussed?

9 A It does.

10 Although, the only thing I would clarify

11 is, when I say was originally introduced by Dan, as I

12 mentioned in the conversation, Dan mentioned it to

13 Mark.

14 I don't know whether that was Dan

15 originally introducing it, meaning there may have been

16 discussions by McConnell, Spargo, or whoever, relative

17 to this concept.

18 So I don't want to -- I don't want it to be

19 construed as Dan was coming up with this idea at this

20 time and proposing it to Mark.

21 It may have been introduced or discussed by

22 others before this meeting, but it was introduced or

23 related to Mark at that meeting.

24 Q And introduced to you at that meeting?

25 A And to me at that meeting, right.

PAGE 256

256

1 company with Mr. Kirstein, is it then that you

2 expressed the sentiment that you would be surprised if

3 Coopers & Lybrand would approve --

4 A Yes.

5 Q -- to Mr. Cancelmi?

6 A Uh-huh.

7 Q Is that 'yes'?

8 A Yes.

9 Q And what was his reaction to your

10 expression of surprise?

11 A I think he had a similar -- a similar

12 thought.

13 Q And I take it, then, from the testimony you

14 just gave us a few minutes ago, that he has never told

15 you, that is, that Mr. Cancelmi has never told you

16 that this idea of the 50 million -- initial

17 \$50 million reserve transfer was his?

18 A That is correct.

19 Q The original idea?

20 A Right, and I do not know where it came

21 from.

22 Q Have you ever heard anybody else ascribe it

23 to anyone?

24 A No.

25 Q I'm going to refer you just quickly to a

PAGE 255

255

1 I mean, for all I know or don't know,

2 Bill Buettner may have already known about it when

3 Mark went back to him, because he may have discussed

4 it with McConnell.

5 I don't know that.

6 Q So what you're -- I think what you're

7 trying to clear up is that you don't want the

8 impression left that you know Mr. Cancelmi was the

9 father of the idea?

10 A Right, and at that moment.

11 Q Right.

12 It may have been others, and it may have

13 been before, as far as you know?

14 A Right.

15 And I would bet that's the case.

16 I doubt that he would have just come to

17 that conclusion, or thought -- thought that idea up

18 and presented it to Mark at that lunch.

19 I would bet there were some prior

20 discussions.

21 Q Was the conversation in the car ride, or

22 was it at the lunch?

23 A It was at the lunch.

24 Q And as you left the lunch, that is, and

25 parted company with Mr. Kirstein, after you parted

PAGE 257

257

1 paragraph immediately before in the notes of  
2 10/14/98.

3 It says, I believe, "indicated '96

4 shortfall was thought to be 30," with a dollar sign, I

5 believe indicating 30 million, "in '96. It was not

6 until '97 that he heard of shortfall of \$50 million,

7 70 million & 99 million."

8 Is that the way you read those notes?

9 A Yes.

10 Q And is that also accurate about your

11 conversation with this PricewaterhouseCoopers person

12 in 1998?

13 A Yes.

14 Q An accurate reflection of it?

15 A Yes.

16 Q And it's accurate and consistent with your

17 recollection today?

18 A Yes.

19 Q Do you remember anything else about the

20 \$50 million sum, or the transfer of reserves that was

21 discussed at the Tambellini's meeting with

22 Mr. Kirstein, or by you and Mr. Cancelmi on that same

23 day?

24 A No.

25 Q Do you remember any other topic of

PAGE 258

258

1 conversation during that lunch, or the ride to and  
 2 from it, as you sit here today?  
 3 A Just that I thought -- I and Dan both  
 4 thought they needed to look at receivables and take a  
 5 good, hard look at it, which we had told him on  
 6 several occasions.  
 7 Q That was you telling Mr. Kirstein that?  
 8 A Yes.  
 9 Q Both of you?  
 10 A Uh-huh.  
 11 Q Both Dan and you?  
 12 A Correct.  
 13 Q And what was his reaction to that, if any?  
 14 A That they already had that on their radar  
 15 screen to look at.  
 16 Q When you heard the comment at Tambellini's,  
 17 did you have a -- in your head, an idea about whether  
 18 the reserves had already been booked at the Graduate,  
 19 or whether they were going to be created for the  
 20 purpose of transfer?  
 21 A I don't know that I had any indication  
 22 one way or the other based on that conversation.  
 23 Q Did you have any indication one way or the  
 24 other based on anything else at the time?  
 25 A No.

PAGE 260

260

1 A I believe Dan Cancelmi was there, and there  
 2 would have been most likely somebody else from  
 3 Coopers & Lybrand, Mark Kirstein or Amy Frazier, or  
 4 both.  
 5 Q Anybody else from the AHERFs side?  
 6 A It could have been Chuck Lisman, or any of  
 7 the accounting managers may have there.  
 8 Nick Vidovich.  
 9 Jack Nelson.  
 10 I just don't remember.  
 11 Q Was the comment made in a discussion of the  
 12 \$50 million transfer?  
 13 A I don't remember it clear enough to  
 14 remember whether numbers were spoken about it, or just  
 15 in general.  
 16 Q But the idea of the availability of the  
 17 Graduate reserves and the transfer of the Graduate  
 18 reserves was the context in which the comment was  
 19 made?  
 20 MR. RYAN: Objection.  
 21 A I believe so.  
 22 Q And the transfer of those reserves to DVOG?  
 23 A That was my understanding.  
 24 Q That's what you took away from the comment?  
 25 A That's correct.

PAGE 259

259

1 Q Did you ever discuss this reserve transfer,  
 2 the 50 million discussed at Tambellini's, with anyone  
 3 from Coopers & Lybrand yourself?  
 4 A I did not.  
 5 Q Did you ever discuss any other reserve  
 6 transfer from Graduate hospitals' accounts to the  
 7 Delaware Valley Obligated Group accounts with anyone  
 8 at Coopers at any other time?  
 9 A No.  
 10 The only other time that I remember  
 11 being discussed, it was at one of the few weekly audit  
 12 update meetings that I went to.  
 13 Q In what fiscal year?  
 14 A It would have been the '97 fiscal year  
 15 audit, so it would have been after June 30, 1997,  
 16 where Bill Buettner made the comment that that's the  
 17 beauty of an acquisition, that it gives you the  
 18 opportunity to, in essence, take care of an issue like  
 19 bad debts over several years by capitalizing it as  
 20 goodwill.  
 21 Q And this was made in your presence, this  
 22 comment?  
 23 A That's correct.  
 24 Q Who else was present at this update  
 25 meeting?

PAGE 261

261

1 Q Did anybody else have a comment in response  
 2 to that?  
 3 A No.  
 4 Q Do you recall any other discussion of the  
 5 topic of the Graduate reserve transfer to DVOG in that  
 6 audit meeting?  
 7 A No.  
 8 Q And I think, from your testimony, then, you  
 9 don't recall any other conversations with anyone at  
 10 Coopers about the transfer after that?  
 11 A That's correct.  
 12 Q To the time of this deposition today?  
 13 A Correct.  
 14 Q Save and except --  
 15 A Well, it may have been when we talked to  
 16 the guy who took the notes here from PWC.  
 17 Q Mr. Cepielik, I apologize.  
 18 A Right.  
 19 Q Other than that?  
 20 A There may have been some well after that  
 21 fact with Buettner, I don't remember, like late '98 or  
 22 '99.  
 23 Q Do you remember the content of any such  
 24 communications?  
 25 A No, no.

SHEET 34 PAGE 262

262

1 Q Do you recall -- strike that.  
 2 Do you recall whether the flagpole language  
 3 was yours in your talk with the fellow from  
 4 PricewaterhouseCoopers in October '98?  
 5 A I don't remember.  
 6 Q Is that a phrase you used?  
 7 A Periodically.  
 8 Q But if you had used it, it would have  
 9 referred to what or whom?  
 10 A In discussion with Bill Buettner.  
 11 Q We've already shown you today,  
 12 Mr. Adamczak, Exhibit 1 -- No. 154, and I'm going to  
 13 ask you to turn back to it for a minute.  
 14 A 154?  
 15 Q Yes.  
 16 It's a May 22nd, 1997 memo to -- from  
 17 Mr. Cancelmi to distribution. It had the restruct --  
 18 "Graduate System Restructure Reserves" as its final  
 19 page.  
 20 A Okay.  
 21 Q I'm going to ask you to skip to the  
 22 second page of the document, Mr. Adamczak.  
 23 At the top, it refers to the recording of  
 24 certain reserves at the Graduate hospitals as part of  
 25 purchase price allocation, and then underlines a

PAGE 264

264

1 A I do.  
 2 Q So does it refresh your recollection now  
 3 that it was most likely in May of 1997 that you heard  
 4 about approval of the \$50 million Graduate reserve  
 5 transfer by Coopers & Lybrand for the first time?  
 6 A Yes, yes.  
 7 MR. RYAN: Objection, misstates the  
 8 document.  
 9 BY MR. JONES:  
 10 Q Did you ever discuss with Dan Cancelmi or  
 11 anybody else on what basis he included the statement  
 12 in this memo about the accounting treatment having  
 13 been discussed with Coopers & Lybrand who agreed with  
 14 the approach?  
 15 A I did not.  
 16 Q Did you ever talk with Dan or Steve or  
 17 Mr. McConnell at any time about any approval from  
 18 Coopers & Lybrand for the \$50 million Graduate  
 19 transfer?  
 20 A We talked about \$99 million being the total  
 21 reserve.  
 22 After this 50 million was moved, subsequent  
 23 analysis that Dan Cancelmi prepared showed that there  
 24 was another shortage of some 20 million -- 20 plus  
 25 million dollars.

PAGE 263

263

1 phrase which reads, "which are not reflected on the  
 2 income statement."  
 3 Do you see that?  
 4 A I do.  
 5 Q And then it says, "Rather," comma, "these  
 6 reserves have been capitalized on the balance sheet as  
 7 an intangible asset which will be amortized over  
 8 35 years."  
 9 Do you see that?  
 10 A I do.  
 11 Q "This accounting treatment," it continues,  
 12 "has been discussed with Coopers & Lybrand who agrees  
 13 with this approach as these reserves are viewed as  
 14 unrecorded preacquisition contingencies."  
 15 Did I read that right, as well?  
 16 A You did.  
 17 Q And you are noted at the distribution line  
 18 at the bottom of the page?  
 19 A I am.  
 20 Q I think, then, the table that follows the  
 21 text I just read has a row that lists "Delaware Valley  
 22 hospital bad debt reserves," and amounts of the  
 23 50 million -- that total 50 million that would be  
 24 accrued there.  
 25 Do you see that?

PAGE 265

265

1 And at that point, I took it to  
 2 David McConnell and said, "There's still a shortage of  
 3 \$20 million."  
 4 And his comment was that, "We had discussed  
 5 cleaning this up once and for all with" -- not "we,"  
 6 that he had discussed with Coopers once and for all  
 7 cleaning this up.  
 8 They were aware of it, they had approved  
 9 the \$50 million being moved, and that they would be  
 10 fine with moving additional reserves to get the bad  
 11 debt reserves where it needed to be.  
 12 In other words, "There's an issue, we're  
 13 going to clean it up, and we're going to do what needs  
 14 to be done to get it cleaned up by the end of this  
 15 year."  
 16 Q And the "this year" in that sentence was  
 17 fiscal year '97?  
 18 A Correct.  
 19 Q Did that -- do you recall approximately at  
 20 what point in time you had that conversation with  
 21 Mr. McConnell?  
 22 A I don't remember specifically, but I know  
 23 it was after Steve left. So it would have been after  
 24 May 30th.  
 25 Q Was it after year end?



PAGE 266

266

1 A I think it was when we were doing the May  
2 financial statements, because then again when June  
3 rolled around, we were another 20 short that no one  
4 suspected, because it -- because the direction had  
5 been given to the patient accounting people to clean  
6 up their patient records.

7 So no one really knew what the magnitude of  
8 the final write off was going to be.

9 They thought it was 50. Then in May, it  
10 ended up 20 short. So they thought it was 70, and  
11 more clean up occurred.

12 As you remember, I told you the patient  
13 accounting records, there's a great volume.

14 So until they're cleaned up, no one knew  
15 what the final outcome was going to be, and they  
16 couldn't clean it up immediately. It took time.

17 So as of May, it was 21 additionally short,  
18 and then in June, it became another 20 some million  
19 additionally short, and that's when I went back to  
20 David McConnell again, and he said, "Talk to Dan and  
21 see whether there are any more reserves on the  
22 Graduate hospitals or elsewhere to cover that 28,  
23 because we are to clean it up by the end of the year."

24 Dan identified additional reserves for that  
25 20 plus million and the reserves.

PAGE 267

267

1 David approved it, and the write off  
2 occurred.

3 Q And that last slug was the 28 million that  
4 is referred to in the August 21, 1998 memo?

5 A Yes.

6 It comes to 99 point --

7 Q The last piece --

8 A -- 565 million.

9 Q The last piece of the 99 million total?

10 A That's correct.

11 Q So you had two subsequent conversations  
12 with Mr. McConnell?

13 A That's correct.

14 Q And in the second one, was  
15 Coopers & Lybrand's review or approval of the ongoing  
16 transfer subject brought up again?

17 MR. RYAN: Objection.

18 A Yes.

19 Although, he -- I don't know that he went  
20 to them specifically and said, "I'm going to write 21,  
21 I'm going to write 28."

22 It was more like, "This issue was discussed  
23 with Coopers. They know we're cleaning it up. They  
24 know we're moving reserves to clean it up. They'll be  
25 okay with it."

PAGE 268

268

1 Q And your direction from him was to take  
2 it -- get rid of it this year?

3 A Correct.

4 Q Mr. Adamczak, we are handing you now what  
5 has been marked as Exhibit 8 early on in the  
6 deposition proceedings in this case apparently, which  
7 is a memo dated April 14, 1997, apparently shortly  
8 after your Tambellini's lunch, to Mr. Spargo from  
9 Mr. Cancelmi, with a heading "Restructuring Charges  
10 Earmarked for Bad Debt Reserves."

11 Have I described the memo accurately?

12 MR. RYAN: Objection.

13 A You have.

14 MR. JONES: What's the basis for that  
15 objection?

16 MR. RYAN: That there's any connection  
17 between this memo and the Tambellini's lunch.  
18 It's the inference that you were packing into  
19 that.

20 MR. JONES: I think -- I was only  
21 indicating a time relationship.

22 BY MR. JONES:

23 Q But in any event, you are copied on the  
24 memo; is that right, sir?

25 A That's true.

PAGE 269

269

1 Q In the first sentence, it says, "In an  
2 effort to alleviate the Delaware Valley patient  
3 accounts receivable estimated bad debt reserve  
4 shortfall, a decision has recently been made to record  
5 approximately 50 million of restructuring reserves on  
6 the various Graduate Hospitals."

7 Did I read the first sentence right?

8 A I believe so.

9 Q And so if -- if this memo was received by  
10 you on or after April 14, 1997, you were aware that  
11 the transfer was to go through, whether or not having  
12 been approved by Coopers, at least by April 14, 1997;  
13 is that right?

14 A Correct.

15 Q Does this refresh your recollection, this  
16 first sentence, that the reserves were actually  
17 recorded in the first instance for the purposes of  
18 alleviating the bad debt reserve shortfall at DVOG?

19 A It appears that's why they were recorded,  
20 yes.

21 I think the -- the one memo we looked at,  
22 No. 154, dated May 22nd, identifies on the second page  
23 accruals for the existing AHERF Delaware Valley  
24 hospital bad debt reserves of 50 million.

25 Q Does the language also indicate to you, and

1 did you so read it at the time, that the reserves were  
 2 not yet booked at Graduate, if you go back to the  
 3 first sentence of the April 14 memo?  
 4 A It appears that to be the case, that they  
 5 were not reserved -- were not recorded, or are being  
 6 recorded as a part of this initiative.  
 7 Q Either they were not yet recorded, or were  
 8 recorded contemporaneous with the memo?  
 9 A Correct.  
 10 Q The second sentence of the memo says, "In  
 11 turn," comma, "these reserves will be transferred over  
 12 to AHERF Delaware Valley hospitals via intercompany  
 13 account transfers, which will serve to increase the  
 14 hospitals' bad debt reserve balances."  
 15 Is that right?  
 16 A That's correct.  
 17 Q And that was consistent with what you  
 18 understood was the proposal raised at the Tambellini's  
 19 lunch in your presence?  
 20 A The only -- yes, but only thing that I was  
 21 not sure of at the Tambellini's lunch is whether  
 22 reserves would be created and moved, or whether they  
 23 would be existing reserves that would be moved.  
 24 But the concept of moving the reserves from  
 25 Graduate to Delaware Valley is consistent.

1 of this memo, Exhibit 8?  
 2 A I do not.  
 3 Q If they would have asked you for it, would  
 4 you have given it to them?  
 5 A I assume so, but I don't know for sure.  
 6 Q Would you have -- pardon my stuttering.  
 7 Did you ever receive any instruction not to  
 8 give this memo to anyone?  
 9 A I did not.  
 10 Q Did you ever give such an instruction?  
 11 A I did not.  
 12 Q I'm handing you or passing now,  
 13 Mr. Adamczak, what we've marked as Exhibit 203, and  
 14 it's a memo from you to Nick Vidovich dated April 17,  
 15 1997, three days later.  
 16 Is that right?  
 17 A That's correct.  
 18 Q And in it, you write under the subject  
 19 line, "Restructuring Reserves," "Fifty million of  
 20 reserves will be recorded on the Graduate Hospitals  
 21 and subsequently moved to DV hospitals via AHERF as  
 22 follows."  
 23 It, again, speaks of the recording process  
 24 to be in the future; is that right?  
 25 A Correct.

1 Q In here, it's made clear to you that it was  
 2 creation, as well?  
 3 A Yes.  
 4 Q Who would have actually ultimately recorded  
 5 the reserves; do you know?  
 6 A The accounting staff for the Delaware  
 7 Valley.  
 8 Q And who would have done the entries to  
 9 accomplish the transfer?  
 10 A The accounting staffs for the Delaware  
 11 Valley hospitals.  
 12 Q And you would not have been involved?  
 13 A In the actual writing of journal entries  
 14 and putting them into the system?  
 15 Q Or approving them.  
 16 A No.  
 17 Q You would not have?  
 18 A I think this memo would have done it.  
 19 I may have -- I don't think I did in this  
 20 instance, but I may have authored a memo consistent  
 21 with this to the accounting staff that said, "Based on  
 22 this memo, record these entries."  
 23 Q You just don't recall doing it?  
 24 A Not on this issue, no.  
 25 Q Do you know if Coopers ever received a copy

1 Q And "DV" refers to Delaware Valley?  
 2 A That's correct.  
 3 Q And these, in fact, the entries that are  
 4 noted below that phrase, are, in fact, the way the  
 5 accounting treatment worked with AHERF as the  
 6 intermediary in the transaction; is that right?  
 7 A Yes and no.  
 8 AHERF, the parent company, was not really  
 9 the intermediary, other than the fact that all banking  
 10 was settled through the parent company.  
 11 You only had a payable or receivable to the  
 12 parent, not to any other entity.  
 13 Q You didn't have a direct payable or  
 14 receivable to sister enterprises?  
 15 A Correct.  
 16 It was either a payable or a receivable  
 17 position with the parent company.  
 18 As a result of moving these reserves from  
 19 one hospital to another, there had to be a  
 20 corresponding entry on this parent relative to that  
 21 receivable or payable position.  
 22 Q And this -- these entries accomplished the  
 23 task --  
 24 A Correct.  
 25 Q -- for the reserve transfers?

PAGE 274

274

1 A That's correct.  
 2 Q For the first 50 million anyway?  
 3 A Yes.  
 4 Q 50 million, was that a significant sum in  
 5 magnitude?  
 6 A I believe so.  
 7 Q And was it significant enough that this --  
 8 you believe that this kind of transfer would have been  
 9 discussed with the auditors?  
 10 A I would believe --  
 11 MR. RYAN: Objection.  
 12 A I would believe it was, and I would also  
 13 believe that they would have seen it in their auditing  
 14 work, and should have asked about it.  
 15 Q Were you generally proactive in your  
 16 discussions with Coopers & Lybrand's about  
 17 transaction -- Coopers & Lybrand about transactions or  
 18 entries of this magnitude?  
 19 A I don't know if we were or weren't, to be  
 20 honest.  
 21 Q I believe you testified and used the word  
 22 "proactive" before when it came to recording something  
 23 like these kinds of transactions.  
 24 Do you have a reason to think otherwise  
 25 now?

PAGE 276

276

1 to create the \$50 million worth of reserves through  
 2 purchase accounting and not the restructuring costs.  
 3 Is that consistent with your recollection?  
 4 A Yes.  
 5 Q And do you know why that decision was made?  
 6 A To record it as a purchase price versus an  
 7 income item?  
 8 Q A restructuring income item.  
 9 A No.  
 10 Q Do you know who was involved?  
 11 A No.  
 12 Although, it says that it was discussed  
 13 with Coopers & Lybrand.  
 14 I was told at one point that they had  
 15 suggested it.  
 16 Q Did Mr. Cancelmi and you ever discuss this?  
 17 A Dan had mentioned to me that  
 18 Coopers & Lybrand -- that this is the issue where I  
 19 think I had mentioned that I thought originally this  
 20 might have been booked as an expense, and then moved  
 21 to the balance sheet as goodwill.  
 22 Q I understand.  
 23 A Or part of that issue, that certain items  
 24 were originally shown as restructuring and later  
 25 reclassified to goodwill.

PAGE 275

275

1 A No, no.  
 2 And based on, you know, my recollection of  
 3 Dan bringing it up at the restaurant, and his memos,  
 4 where he says Coopers & Lybrand approved it, I have no  
 5 reason to believe that it wasn't discussed with them  
 6 proactively.  
 7 Q And my question is: With items of this  
 8 magnitude, 50 million -- in the \$50 million range,  
 9 were you proactive in discussing generally these  
 10 matters with Coopers & Lybrand to avoid reversals  
 11 later?  
 12 A Generally, yes.  
 13 MR. JONES: Let's take a quick break here.  
 14 THE VIDEOGRAPHER: We're off the record.  
 15 The time is 4:47 p.m.  
 16 (Recess taken.)  
 17 THE VIDEOGRAPHER: Standby, please.  
 18 We're back on the record. The time is  
 19 4:49 p.m.  
 20 BY MR. JONES:  
 21 Q I'm going to ask you to flip back to  
 22 Exhibit 154.  
 23 It looks like, based on the language we  
 24 read on the second page of this exhibit together,  
 25 Mr. Adamczak, that at some point a decision was made

PAGE 277

277

1 Q So when you say that -- was it Dan that  
 2 told you that Coopers was involved in changing the  
 3 initial treatment from restructuring cost charges to  
 4 the income statement, to a balance sheet item in  
 5 purchase price accounting?  
 6 A Yes, that they were involved in that  
 7 suggestion or decision.  
 8 Q Okay.  
 9 And do you recall roughly when he told you  
 10 that?  
 11 A No.  
 12 Q Do you recall the context of the meeting,  
 13 or the conversation?  
 14 A Yeah.  
 15 I had asked him -- again, I had seen  
 16 financial statements for one month that had  
 17 restructuring expenses of a certain number, and then I  
 18 got the next month Delaware Valley statements, and  
 19 their restructuring number was much smaller on the  
 20 balance sheet increase.  
 21 So there was an adjustment to the prior  
 22 period, and I had asked Dan why that occurred.  
 23 And he told me that there was a discussion  
 24 with Coopers, and they suggested that certain of those  
 25 expenses should be shown as goodwill instead of as a

SHEET 36 PAGE 278

278

1 restructuring cost, and they made the adjustment  
 2 retroactive.  
 3 Q When Mr. Buettner made the comment in the  
 4 meeting you referred to earlier about the beauty of  
 5 purchase accounting, was there any reaction from  
 6 anybody, or any other discussion of the topic?  
 7 A I don't think so.  
 8 Q Was a time frame put -- and forgive me if  
 9 you already testified to this -- to the amount of time  
 10 over which the items could be written off?  
 11 A Well, it said in that memo that they would  
 12 be written off over 35 years, but I thought that that  
 13 was adjusted afterward downward to 15 to 20 years.  
 14 Q And did Mr. Buettner say that in the  
 15 meeting you referred to earlier, or did you learn that  
 16 or recall that from some other set of events?  
 17 A That the --  
 18 Q That the time period would be 15 years.  
 19 A I don't remember.  
 20 Q Do you remember him putting a time period  
 21 to it in his comments about the beauty of purchase  
 22 accounting, purchase price accounting?  
 23 A Yeah, but I don't remember whether he said  
 24 over 15 or 30, or just over future years.  
 25 Q In the -- in Exhibit 8, just a few back,

PAGE 280

280

1 I can't say whether they did it in the  
 2 Delaware Valley or not.  
 3 Q And do you believe such transfers to be  
 4 compliant with GAP?  
 5 A No.  
 6 MR. JONES: That's, I think, where we'll  
 7 stop for the day.  
 8 THE VIDEOGRAPHER: This concludes tape four  
 9 of the deposition of Mr. Albert Adamczak. We're  
 10 off the record. The time is 4:55 p.m.  
 11 ---  
 12 (Thereupon, at 4:55 p.m., the deposition  
 13 was continued, to resume on Friday, June 20,  
 14 2003 at 8:30 a.m.)  
 15 ---  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

PAGE 279

279

1 or just on top of the pile, on the first page,  
 2 Mr. Cancelmi about halfway through the second  
 3 paragraph states, "Granted, the reallocation of the  
 4 reserves" -- "of these reserves from the Graduate  
 5 hospitals to other Delaware Valley hospitals is not  
 6 the most technically appropriate resting place."  
 7 Do you see that --  
 8 A I do.  
 9 Q -- sentence?  
 10 Did you agree with Mr. Cancelmi in this  
 11 statement?  
 12 A Yes.  
 13 Q And what -- what do you understand him to  
 14 be saying there?  
 15 A Again, that they're created on  
 16 one hospital, or one obligated group, and moved to  
 17 another obligated group, that you've crossed  
 18 boundaries between legal entities.  
 19 Q Had you ever seen that type of transfer  
 20 before in your work at AHERF?  
 21 A Between obligated groups, I don't remember  
 22 ever seeing it.  
 23 I don't know whether they -- in Pittsburgh,  
 24 I don't remember it moving from one hospital to  
 25 another.

PAGE 281

281

1 CERTIFICATE  
 2 COMMONWEALTH OF PENNSYLVANIA, )  
 3 ) SS:  
 4 COUNTY OF ALLEGHENY. )  
 5 I, Teresa Constantini, do hereby certify that  
 6 before me, a Notary Public in and for the Commonwealth  
 7 aforesaid, personally appeared ALBERT ADAMCZAK, who  
 8 then was by me first duly cautioned and sworn to  
 9 testify the truth, the whole truth, and nothing but  
 10 the truth in the taking of his oral deposition in the  
 11 cause aforesaid; that the testimony then given by him  
 12 as above set forth was by me reduced to stenotypy in  
 13 the presence of said witness, and afterwards  
 14 transcribed by means of computer-aided transcription.  
 15 I do further certify that this deposition was  
 16 taken at the time and place in the foregoing caption  
 17 specified.  
 18 I do further certify that I am not a relative,  
 19 counsel or attorney of either party, or otherwise  
 20 interested in the event of this action.  
 21 IN WITNESS WHEREOF, I have hereunto set my hand  
 22 and affixed my seal of office at Pittsburgh,  
 23 Pennsylvania, on this \_\_\_\_ day of \_\_\_\_\_,  
 24 2003.  
 25  
 26  
 27  
 28  
 29  
 30  
 31  
 32  
 33  
 34  
 35  
 36  
 37  
 38  
 39  
 40  
 41  
 42  
 43  
 44  
 45  
 46  
 47  
 48  
 49  
 50  
 51  
 52  
 53  
 54  
 55  
 56  
 57  
 58  
 59  
 60  
 61  
 62  
 63  
 64  
 65  
 66  
 67  
 68  
 69  
 70  
 71  
 72  
 73  
 74  
 75  
 76  
 77  
 78  
 79  
 80  
 81  
 82  
 83  
 84  
 85  
 86  
 87  
 88  
 89  
 90  
 91  
 92  
 93  
 94  
 95  
 96  
 97  
 98  
 99  
 100  
 101  
 102  
 103  
 104  
 105  
 106  
 107  
 108  
 109  
 110  
 111  
 112  
 113  
 114  
 115  
 116  
 117  
 118  
 119  
 120  
 121  
 122  
 123  
 124  
 125  
 126  
 127  
 128  
 129  
 130  
 131  
 132  
 133  
 134  
 135  
 136  
 137  
 138  
 139  
 140  
 141  
 142  
 143  
 144  
 145  
 146  
 147  
 148  
 149  
 150  
 151  
 152  
 153  
 154  
 155  
 156  
 157  
 158  
 159  
 160  
 161  
 162  
 163  
 164  
 165  
 166  
 167  
 168  
 169  
 170  
 171  
 172  
 173  
 174  
 175  
 176  
 177  
 178  
 179  
 180  
 181  
 182  
 183  
 184  
 185  
 186  
 187  
 188  
 189  
 190  
 191  
 192  
 193  
 194  
 195  
 196  
 197  
 198  
 199  
 200  
 201  
 202  
 203  
 204  
 205  
 206  
 207  
 208  
 209  
 210  
 211  
 212  
 213  
 214  
 215  
 216  
 217  
 218  
 219  
 220  
 221  
 222  
 223  
 224  
 225  
 226  
 227  
 228  
 229  
 230  
 231  
 232  
 233  
 234  
 235  
 236  
 237  
 238  
 239  
 240  
 241  
 242  
 243  
 244  
 245  
 246  
 247  
 248  
 249  
 250  
 251  
 252  
 253  
 254  
 255  
 256  
 257  
 258  
 259  
 260  
 261  
 262  
 263  
 264  
 265  
 266  
 267  
 268  
 269  
 270  
 271  
 272  
 273  
 274  
 275  
 276  
 277  
 278  
 279  
 280  
 281  
 282  
 283  
 284  
 285  
 286  
 287  
 288  
 289  
 290  
 291  
 292  
 293  
 294  
 295  
 296  
 297  
 298  
 299  
 300  
 301  
 302  
 303  
 304  
 305  
 306  
 307  
 308  
 309  
 310  
 311  
 312  
 313  
 314  
 315  
 316  
 317  
 318  
 319  
 320  
 321  
 322  
 323  
 324  
 325  
 326  
 327  
 328  
 329  
 330  
 331  
 332  
 333  
 334  
 335  
 336  
 337  
 338  
 339  
 340  
 341  
 342  
 343  
 344  
 345  
 346  
 347  
 348  
 349  
 350  
 351  
 352  
 353  
 354  
 355  
 356  
 357  
 358  
 359  
 360  
 361  
 362  
 363  
 364  
 365  
 366  
 367  
 368  
 369  
 370  
 371  
 372  
 373  
 374  
 375  
 376  
 377  
 378  
 379  
 380  
 381  
 382  
 383  
 384  
 385  
 386  
 387  
 388  
 389  
 390  
 391  
 392  
 393  
 394  
 395  
 396  
 397  
 398  
 399  
 400  
 401  
 402  
 403  
 404  
 405  
 406  
 407  
 408  
 409  
 410  
 411  
 412  
 413  
 414  
 415  
 416  
 417  
 418  
 419  
 420  
 421  
 422  
 423  
 424  
 425  
 426  
 427  
 428  
 429  
 430  
 431  
 432  
 433  
 434  
 435  
 436  
 437  
 438  
 439  
 440  
 441  
 442  
 443  
 444  
 445  
 446  
 447  
 448  
 449  
 450  
 451  
 452  
 453  
 454  
 455  
 456  
 457  
 458  
 459  
 460  
 461  
 462  
 463  
 464  
 465  
 466  
 467  
 468  
 469  
 470  
 471  
 472  
 473  
 474  
 475  
 476  
 477  
 478  
 479  
 480  
 481  
 482  
 483  
 484  
 485  
 486  
 487  
 488  
 489  
 490  
 491  
 492  
 493  
 494  
 495  
 496  
 497  
 498  
 499  
 500  
 501  
 502  
 503  
 504  
 505  
 506  
 507  
 508  
 509  
 510  
 511  
 512  
 513  
 514  
 515  
 516  
 517  
 518  
 519  
 520  
 521  
 522  
 523  
 524  
 525  
 526  
 527  
 528  
 529  
 530  
 531  
 532  
 533  
 534  
 535  
 536  
 537  
 538  
 539  
 540  
 541  
 542  
 543  
 544  
 545  
 546  
 547  
 548  
 549  
 550  
 551  
 552  
 553  
 554  
 555  
 556  
 557  
 558  
 559  
 560  
 561  
 562  
 563  
 564  
 565  
 566  
 567  
 568  
 569  
 570  
 571  
 572  
 573  
 574  
 575  
 576  
 577  
 578  
 579  
 580  
 581  
 582  
 583  
 584  
 585  
 586  
 587  
 588  
 589  
 590  
 591  
 592  
 593  
 594  
 595  
 596  
 597  
 598  
 599  
 600  
 601  
 602  
 603  
 604  
 605  
 606  
 607  
 608  
 609  
 610  
 611  
 612  
 613  
 614  
 615  
 616  
 617  
 618  
 619  
 620  
 621  
 622  
 623  
 624  
 625  
 626  
 627  
 628  
 629  
 630  
 631  
 632  
 633  
 634  
 635  
 636  
 637  
 638  
 639  
 640  
 641  
 642  
 643  
 644  
 645  
 646  
 647  
 648  
 649  
 650  
 651  
 652  
 653  
 654  
 655  
 656  
 657  
 658  
 659  
 660  
 661  
 662  
 663  
 664  
 665  
 666  
 667  
 668  
 669  
 670  
 671  
 672  
 673  
 674  
 675  
 676  
 677  
 678  
 679  
 680  
 681  
 682  
 683  
 684  
 685  
 686  
 687  
 688  
 689  
 690  
 691  
 692  
 693  
 694  
 695  
 696  
 697  
 698  
 699  
 700  
 701  
 702  
 703  
 704  
 705  
 706  
 707  
 708  
 709  
 710  
 711  
 712  
 713  
 714  
 715  
 716  
 717  
 718  
 719  
 720  
 721  
 722  
 723  
 724  
 725  
 726  
 727  
 728  
 729  
 730  
 731  
 732  
 733  
 734  
 735  
 736  
 737  
 738  
 739  
 740  
 741  
 742  
 743  
 744  
 745  
 746  
 747  
 748  
 749  
 750  
 751  
 752  
 753  
 754  
 755  
 756  
 757  
 758  
 759  
 760  
 761  
 762  
 763  
 764  
 765  
 766  
 767  
 768  
 769  
 770  
 771  
 772  
 773  
 774  
 775  
 776  
 777  
 778  
 779  
 780  
 781  
 782  
 783  
 784  
 785  
 786  
 787  
 788  
 789  
 790  
 791  
 792  
 793  
 794  
 795  
 796  
 797  
 798  
 799  
 800  
 801  
 802  
 803  
 804  
 805  
 806  
 807  
 808  
 809  
 810  
 811  
 812  
 813  
 814  
 815  
 816  
 817  
 818  
 819  
 820  
 821  
 822  
 823  
 824  
 825  
 826  
 827  
 828  
 829  
 830  
 831  
 832  
 833  
 834  
 835  
 836  
 837  
 838  
 839  
 840  
 841  
 842  
 843  
 844  
 845  
 846  
 847  
 848  
 849  
 850  
 851  
 852  
 853  
 854  
 855  
 856  
 857  
 858  
 859  
 860  
 861  
 862  
 863  
 864  
 865  
 866  
 867  
 868  
 869  
 870  
 871  
 872  
 873  
 874  
 875  
 876  
 877  
 878  
 879  
 880  
 881  
 882  
 883  
 884  
 885  
 886  
 887  
 888  
 889  
 890  
 891  
 892  
 893  
 894  
 895  
 896  
 897  
 898  
 899  
 900  
 901  
 902  
 903  
 904  
 905  
 906  
 907  
 908  
 909  
 910  
 911  
 912  
 913  
 914  
 915  
 916  
 917  
 918  
 919  
 920  
 921  
 922  
 923  
 924  
 925  
 926  
 927  
 928  
 929  
 930  
 931  
 932  
 933  
 934  
 935  
 936  
 937  
 938  
 939  
 940  
 941  
 942  
 943  
 944  
 945  
 946  
 947  
 948  
 949  
 950  
 951  
 952  
 953  
 954  
 955  
 956  
 957  
 958  
 959  
 960  
 961  
 962  
 963  
 964  
 965  
 966  
 967  
 968  
 969  
 970  
 971  
 972  
 973  
 974  
 975  
 976  
 977  
 978  
 979  
 980  
 981  
 982  
 983  
 984  
 985  
 986  
 987  
 988  
 989  
 990  
 991  
 992  
 993  
 994  
 995  
 996  
 997  
 998  
 999  
 1000

MG&amp;H Courter Reporters, Inc.

719 One Bigelow Square, Pittsburgh, Pennsylvania 15219

412-281-0189



SHEET 36 PAGE 278

278

1 restructuring cost, and they made the adjustment  
 2 retroactive.  
 3 Q When Mr. Buettner made the comment in the  
 4 meeting you referred to earlier about the beauty of  
 5 purchase accounting, was there any reaction from  
 6 anybody, or any other discussion of the topic?  
 7 A I don't think so.  
 8 Q Was a time frame put -- and forgive me if  
 9 you already testified to this -- to the amount of time  
 10 over which the items could be written off?  
 11 A Well, it said in that memo that they would  
 12 be written off over 35 years, but I thought that that  
 13 was adjusted afterward downward to 15 to 20 years.  
 14 Q And did Mr. Buettner say that in the  
 15 meeting you referred to earlier, or did you learn that  
 16 or recall that from some other set of events?  
 17 A That the --  
 18 Q That the time period would be 15 years.  
 19 A I don't remember.  
 20 Q Do you remember him putting a time period  
 21 to it in his comments about the beauty of purchase  
 22 accounting, purchase price accounting?  
 23 A Yeah, but I don't remember whether he said  
 24 over 15 or 30, or just over future years.  
 25 Q In the -- in Exhibit 8, just a few back,

PAGE 280

280

1 I can't say whether they did it in the  
 2 Delaware Valley or not.  
 3 Q And do you believe such transfers to be  
 4 compliant with GAP?  
 5 A No.  
 6 MR. JONES: That's, I think, where we'll  
 7 stop for the day.  
 8 THE VIDEOGRAPHER: This concludes tape four  
 9 of the deposition of Mr. Albert Adamczak. We're  
 10 off the record. The time is 4:55 p.m.  
 11 ---  
 12 (Thereupon, at 4:55 p.m., the deposition  
 13 was continued, to resume on Friday, June 20,  
 14 2003 at 8:30 a.m.)  
 15 ---  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

PAGE 279

279

1 or just on top of the pile, on the first page,  
 2 Mr. Cancelmi about halfway through the second  
 3 paragraph states, "Granted, the reallocation of the  
 4 reserves" -- "of these reserves from the Graduate  
 5 hospitals to other Delaware Valley hospitals is not  
 6 the most technically appropriate resting place."  
 7 Do you see that --  
 8 A I do.  
 9 Q -- sentence?  
 10 Did you agree with Mr. Cancelmi in this  
 11 statement?  
 12 A Yes.  
 13 Q And what -- what do you understand him to  
 14 be saying there?  
 15 A Again, that they're created on  
 16 one hospital, or one obligated group, and moved to  
 17 another obligated group, that you've crossed  
 18 boundaries between legal entities.  
 19 Q Had you ever seen that type of transfer  
 20 before in your work at AHERF?  
 21 A Between obligated groups, I don't remember  
 22 ever seeing it.  
 23 I don't know whether they -- in Pittsburgh,  
 24 I don't remember it moving from one hospital to  
 25 another.

PAGE 281

281

1 CERTIFICATE  
 2 COMMONWEALTH OF PENNSYLVANIA, )  
 3 ) SS:  
 4 COUNTY OF ALLEGHENY. )  
 5 I, Teresa Constantini, do hereby certify that  
 6 before me, a Notary Public in and for the Commonwealth  
 7 aforesaid, personally appeared ALBERT ADAMCZAK, who  
 8 then was by me first duly cautioned and sworn to  
 9 testify the truth, the whole truth, and nothing but  
 10 the truth in the taking of his oral deposition in the  
 11 cause aforesaid; that the testimony then given by him  
 12 as above set forth was by me reduced to stenotypy in  
 13 the presence of said witness, and afterwards  
 14 transcribed by means of computer-aided transcription.  
 15 I do further certify that this deposition was  
 16 taken at the time and place in the foregoing caption  
 17 specified.  
 18 I do further certify that I am not a relative,  
 19 counsel or attorney of either party, or otherwise  
 20 interested in the event of this action.  
 21 IN WITNESS WHEREOF, I have hereunto set my hand  
 22 and affixed my seal of office at Pittsburgh,  
 23 Pennsylvania, on this \_\_\_\_ day of \_\_\_\_\_,  
 24 2003.  
 25  
 26  
 27  
 28  
 29  
 30  
 31  
 32  
 33  
 34  
 35  
 36  
 37  
 38  
 39  
 40  
 41  
 42  
 43  
 44  
 45  
 46  
 47  
 48  
 49  
 50  
 51  
 52  
 53  
 54  
 55  
 56  
 57  
 58  
 59  
 60  
 61  
 62  
 63  
 64  
 65  
 66  
 67  
 68  
 69  
 70  
 71  
 72  
 73  
 74  
 75  
 76  
 77  
 78  
 79  
 80  
 81  
 82  
 83  
 84  
 85  
 86  
 87  
 88  
 89  
 90  
 91  
 92  
 93  
 94  
 95  
 96  
 97  
 98  
 99  
 100  
 101  
 102  
 103  
 104  
 105  
 106  
 107  
 108  
 109  
 110  
 111  
 112  
 113  
 114  
 115  
 116  
 117  
 118  
 119  
 120  
 121  
 122  
 123  
 124  
 125  
 126  
 127  
 128  
 129  
 130  
 131  
 132  
 133  
 134  
 135  
 136  
 137  
 138  
 139  
 140  
 141  
 142  
 143  
 144  
 145  
 146  
 147  
 148  
 149  
 150  
 151  
 152  
 153  
 154  
 155  
 156  
 157  
 158  
 159  
 160  
 161  
 162  
 163  
 164  
 165  
 166  
 167  
 168  
 169  
 170  
 171  
 172  
 173  
 174  
 175  
 176  
 177  
 178  
 179  
 180  
 181  
 182  
 183  
 184  
 185  
 186  
 187  
 188  
 189  
 190  
 191  
 192  
 193  
 194  
 195  
 196  
 197  
 198  
 199  
 200  
 201  
 202  
 203  
 204  
 205  
 206  
 207  
 208  
 209  
 210  
 211  
 212  
 213  
 214  
 215  
 216  
 217  
 218  
 219  
 220  
 221  
 222  
 223  
 224  
 225  
 226  
 227  
 228  
 229  
 230  
 231  
 232  
 233  
 234  
 235  
 236  
 237  
 238  
 239  
 240  
 241  
 242  
 243  
 244  
 245  
 246  
 247  
 248  
 249  
 250  
 251  
 252  
 253  
 254  
 255  
 256  
 257  
 258  
 259  
 260  
 261  
 262  
 263  
 264  
 265  
 266  
 267  
 268  
 269  
 270  
 271  
 272  
 273  
 274  
 275  
 276  
 277  
 278  
 279  
 280  
 281  
 282  
 283  
 284  
 285  
 286  
 287  
 288  
 289  
 290  
 291  
 292  
 293  
 294  
 295  
 296  
 297  
 298  
 299  
 300  
 301  
 302  
 303  
 304  
 305  
 306  
 307  
 308  
 309  
 310  
 311  
 312  
 313  
 314  
 315  
 316  
 317  
 318  
 319  
 320  
 321  
 322  
 323  
 324  
 325  
 326  
 327  
 328  
 329  
 330  
 331  
 332  
 333  
 334  
 335  
 336  
 337  
 338  
 339  
 340  
 341  
 342  
 343  
 344  
 345  
 346  
 347  
 348  
 349  
 350  
 351  
 352  
 353  
 354  
 355  
 356  
 357  
 358  
 359  
 360  
 361  
 362  
 363  
 364  
 365  
 366  
 367  
 368  
 369  
 370  
 371  
 372  
 373  
 374  
 375  
 376  
 377  
 378  
 379  
 380  
 381  
 382  
 383  
 384  
 385  
 386  
 387  
 388  
 389  
 390  
 391  
 392  
 393  
 394  
 395  
 396  
 397  
 398  
 399  
 400  
 401  
 402  
 403  
 404  
 405  
 406  
 407  
 408  
 409  
 410  
 411  
 412  
 413  
 414  
 415  
 416  
 417  
 418  
 419  
 420  
 421  
 422  
 423  
 424  
 425  
 426  
 427  
 428  
 429  
 430  
 431  
 432  
 433  
 434  
 435  
 436  
 437  
 438  
 439  
 440  
 441  
 442  
 443  
 444  
 445  
 446  
 447  
 448  
 449  
 450  
 451  
 452  
 453  
 454  
 455  
 456  
 457  
 458  
 459  
 460  
 461  
 462  
 463  
 464  
 465  
 466  
 467  
 468  
 469  
 470  
 471  
 472  
 473  
 474  
 475  
 476  
 477  
 478  
 479  
 480  
 481  
 482  
 483  
 484  
 485  
 486  
 487  
 488  
 489  
 490  
 491  
 492  
 493  
 494  
 495  
 496  
 497  
 498  
 499  
 500  
 501  
 502  
 503  
 504  
 505  
 506  
 507  
 508  
 509  
 510  
 511  
 512  
 513  
 514  
 515  
 516  
 517  
 518  
 519  
 520  
 521  
 522  
 523  
 524  
 525  
 526  
 527  
 528  
 529  
 530  
 531  
 532  
 533  
 534  
 535  
 536  
 537  
 538  
 539  
 540  
 541  
 542  
 543  
 544  
 545  
 546  
 547  
 548  
 549  
 550  
 551  
 552  
 553  
 554  
 555  
 556  
 557  
 558  
 559  
 560  
 561  
 562  
 563  
 564  
 565  
 566  
 567  
 568  
 569  
 570  
 571  
 572  
 573  
 574  
 575  
 576  
 577  
 578  
 579  
 580  
 581  
 582  
 583  
 584  
 585  
 586  
 587  
 588  
 589  
 590  
 591  
 592  
 593  
 594  
 595  
 596  
 597  
 598  
 599  
 600  
 601  
 602  
 603  
 604  
 605  
 606  
 607  
 608  
 609  
 610  
 611  
 612  
 613  
 614  
 615  
 616  
 617  
 618  
 619  
 620  
 621  
 622  
 623  
 624  
 625  
 626  
 627  
 628  
 629  
 630  
 631  
 632  
 633  
 634  
 635  
 636  
 637  
 638  
 639  
 640  
 641  
 642  
 643  
 644  
 645  
 646  
 647  
 648  
 649  
 650  
 651  
 652  
 653  
 654  
 655  
 656  
 657  
 658  
 659  
 660  
 661  
 662  
 663  
 664  
 665  
 666  
 667  
 668  
 669  
 670  
 671  
 672  
 673  
 674  
 675  
 676  
 677  
 678  
 679  
 680  
 681  
 682  
 683  
 684  
 685  
 686  
 687  
 688  
 689  
 690  
 691  
 692  
 693  
 694  
 695  
 696  
 697  
 698  
 699  
 700  
 701  
 702  
 703  
 704  
 705  
 706  
 707  
 708  
 709  
 710  
 711  
 712  
 713  
 714  
 715  
 716  
 717  
 718  
 719  
 720  
 721  
 722  
 723  
 724  
 725  
 726  
 727  
 728  
 729  
 730  
 731  
 732  
 733  
 734  
 735  
 736  
 737  
 738  
 739  
 740  
 741  
 742  
 743  
 744  
 745  
 746  
 747  
 748  
 749  
 750  
 751  
 752  
 753  
 754  
 755  
 756  
 757  
 758  
 759  
 760  
 761  
 762  
 763  
 764  
 765  
 766  
 767  
 768  
 769  
 770  
 771  
 772  
 773  
 774  
 775  
 776  
 777  
 778  
 779  
 780  
 781  
 782  
 783  
 784  
 785  
 786  
 787  
 788  
 789  
 790  
 791  
 792  
 793  
 794  
 795  
 796  
 797  
 798  
 799  
 800  
 801  
 802  
 803  
 804  
 805  
 806  
 807  
 808  
 809  
 810  
 811  
 812  
 813  
 814  
 815  
 816  
 817  
 818  
 819  
 820  
 821  
 822  
 823  
 824  
 825  
 826  
 827  
 828  
 829  
 830  
 831  
 832  
 833  
 834  
 835  
 836  
 837  
 838  
 839  
 840  
 841  
 842  
 843  
 844  
 845  
 846  
 847  
 848  
 849  
 850  
 851  
 852  
 853  
 854  
 855  
 856  
 857  
 858  
 859  
 860  
 861  
 862  
 863  
 864  
 865  
 866  
 867  
 868  
 869  
 870  
 871  
 872  
 873  
 874  
 875  
 876  
 877  
 878  
 879  
 880  
 881  
 882  
 883  
 884  
 885  
 886  
 887  
 888  
 889  
 890  
 891  
 892  
 893  
 894  
 895  
 896  
 897  
 898  
 899  
 900  
 901  
 902  
 903  
 904  
 905  
 906  
 907  
 908  
 909  
 910  
 911  
 912  
 913  
 914  
 915  
 916  
 917  
 918  
 919  
 920  
 921  
 922  
 923  
 924  
 925  
 926  
 927  
 928  
 929  
 930  
 931  
 932  
 933  
 934  
 935  
 936  
 937  
 938  
 939  
 940  
 941  
 942  
 943  
 944  
 945  
 946  
 947  
 948  
 949  
 950  
 951  
 952  
 953  
 954  
 955  
 956  
 957  
 958  
 959  
 960  
 961  
 962  
 963  
 964  
 965  
 966  
 967  
 968  
 969  
 970  
 971  
 972  
 973  
 974  
 975  
 976  
 977  
 978  
 979  
 980  
 981  
 982  
 983  
 984  
 985  
 986  
 987  
 988  
 989  
 990  
 991  
 992  
 993  
 994  
 995  
 996  
 997  
 998  
 999  
 1000

MG&amp;H Courter Reporters, Inc.

719 One Bigelow Square, Pittsburgh, Pennsylvania 15219

412-281-0189

## 1 UNITED STATES DISTRICT COURT

2 FOR THE WESTERN DISTRICT OF PENNSYLVANIA

3 - - -

4 THE OFFICIAL COMMITTEE OF THE )  
 5 UNSECURED CREDITORS OF ALLEGHENY )  
 6 HEALTH, EDUCATION AND RESEARCH )  
 FOUNDATION, )

7 Plaintiff, )

8 vs. )

) Civil Action

) No. 00-684

9 PRICEWATERHOUSECOOPERS, LLP, )

10 Defendant. )

11 - - -

12 Continued Videotaped Deposition of ALBERT ADAMCZAK

13 Friday, June 20, 2003

14 Volume II

15 - - -

16 The continued videotaped deposition of  
 17 ALBERT ADAMCZAK, recalled as a witness by the  
 Plaintiff, pursuant to notice and the Federal Rules  
 18 of Civil Procedure pertaining to the taking of  
 depositions, taken before me, the undersigned,  
 19 Teresa Constantini, a Notary Public in and for the  
 Commonwealth of Pennsylvania, at the law offices of  
 Jones, Day, Reavis & Pogue, One Mellon Bank Center,  
 20 500 Grant Street, 31st Floor, Pittsburgh, Pennsylvania  
 15219, commencing at 8:26 a.m. the day and date above  
 set forth.

21 - - -

22 COMPUTER-AIDED TRANSCRIPTION BY  
 23 MORSE, GANTVERG & HODGE, INC.  
 24 PITTSBURGH, PENNSYLVANIA  
 412-281-0189

25 - - -

PAGE 10

291

1 documented so titled.

2 Do you recognize this document?

3 A I do.

4 Q And it is one of the update agendas?

5 A Yes.

6 Although, based on the date, it looks like  
7 it was probably a preaudit meeting, meaning that this  
8 meeting looks like it took place before the year end.

9 Q Before June 30?

10 A Yes, before the year-end audits started.

11 Q And, in fact, it follows the April 14, 1997  
12 memo marked as Exhibit 8 by a couple months?

13 A Correct.

14 Q And it looks as if there are still ongoing  
15 discussions about the appropriate entry date for the  
16 Graduate hospitals as late as June 20?

17 A I agree.

18 I see that halfway down where it says  
19 closing date March May -- versus May.

20 Q It says "March 1 versus May 1"; correct?

21 A Correct.

22 Q And do you remember any discussions at this  
23 update meeting --

24 A If I remember --

25 Q -- on this topic?

PAGE 10

293

1 about the selection of the appropriate date?

2 A I don't remember whether they did at the  
3 meeting or not.

4 Q Do you remember who was in attendance at  
5 this meeting?

6 A I believe Bill Buettner, and either  
7 Mark Kirstein or Amy Frazier, myself,  
8 David McConnell. Although I can't remember whether he  
9 was or not, I would assume Dan Cancelmi probably was  
10 here.

11 Q Your -- are the handwritten notes on the  
12 document yours?

13 A They were.

14 Q Can you read the ones up in the upper  
15 left-hand corner for me?

16 A Something relative a special purpose  
17 opinion for some kind of a debt letter that we would  
18 have needed.

19 Q And in the upper right-hand corner, does it  
20 say "Set up meeting"?

21 A Set up meeting relative to Penn Medical and  
22 Pyramid, which was an HMO arrangement, I believe.

23 Q I think we mentioned them yesterday.

24 A Yeah.

25 I think we had asked Coopers -- I don't

PAGE 11

292

1 A If I remember correctly, this agenda was  
2 part of -- if you remember, we talked previously about  
3 a -- generally having a planning meeting with  
4 Coopers & Lybrand before they came and did their  
5 interim work, or so forth, or before the audit anyhow,  
6 it might have been even after they did their audit  
7 work.

8 I think this was put together for a meeting  
9 to discuss some outstanding issues before the audit.

10 Q Do you recall at the meeting any discussion  
11 of this Graduate closing date, or entry date with the  
12 auditors?

13 A I know that they were made aware of the  
14 issue, and I think there was to be further follow-up  
15 discussion after they were to do some research and  
16 come back with some recommendations.

17 So I don't think there was an elaborate  
18 discussion relative to this issue at the meeting.

19 I think it was introduced as an issue, that  
20 there was some follow-up conversation relative to it  
21 at a later date.

22 Q Who introduced it?

23 A I can't say for sure, but I believe  
24 David McConnell was at this meeting.

25 Q Did anyone from Coopers express a concern

PAGE 13

294

1 know whether they were to engage -- whether it was  
2 one of their actuaries, or somebody, to review -- with  
3 an HMO, you generally review actuarial experience to  
4 determine what liabilities may be out there that you  
5 don't know about.

6 And they were to be involved in the process  
7 of that actuarial review, to determine what  
8 liabilities needed to be recorded for the Pyramid  
9 contract at year end.

10 Q Could you read for me the notes that are  
11 closest now to the "Graduate closing Date" entry on  
12 the agenda?

13 A "Forbes opening balance sheet," and "Final  
14 resolutions."

15 Q And what does the "Final resolutions" refer  
16 to? If you recall.

17 A I would assume that had something to do  
18 with the purchase agreements, and so forth.

19 I think there was something in the  
20 resolutions that required the Graduate hospitals to  
21 come into the AHERF system by a certain date.

22 Q And at the base of the page, you've got a  
23 note, a footnote, apparently next to the -- the  
24 subheading under "Commitments" that has the word  
25 "Others."

SHEET 3 PAGE 14

295

- 1 And could you read the footnote for me?
- 2 A "DV," which is Delaware Valley, "provisions
- 3 that make cause capital treatment 90 percent of fair
- 4 market value."
- 5 So there must have been some kind of a
- 6 leasing agreement, that we were trying to determine
- 7 whether it should be treated as an operating lease or
- 8 a capital lease.
- 9 Q On the second page, I think you'll see
- 10 additional handwritten notes.
- 11 Does the first one say "Audit Timing"?
- 12 A Correct.
- 13 Q "August 4 and August 31"?
- 14 A No.
- 15 What it seems to say to me is, I believe,
- 16 that August 4th ending August 31st.
- 17 Q Do you have any recollection of what those
- 18 notes mean?
- 19 A That probably is when they were going to do
- 20 a bulk of their year-end work.
- 21 Q Oh, I see.
- 22 And then the last entry in your handwriting
- 23 is "Policy Manual 2 year"?
- 24 A Yeah.
- 25 Q And what does that refer to? If you

PAGE 15

296

- 1 recall.
- 2 A The thought was that we needed to develop a
- 3 policy manual related to something, I don't remember
- 4 what, and we thought the process might take about
- 5 two years to -- from the start to completion of a
- 6 thorough policy manual.
- 7 Q I'm going to ask you to look back at
- 8 Exhibit 8 again.
- 9 If you look again at page 2 of the document
- 10 on the second page, the sentences we looked at moments
- 11 ago indicate that the 50 million initial reserve
- 12 transfers from the Graduate -- accounts at the
- 13 Graduate hospitals to accounts at the Delaware Valley
- 14 hospitals was to occur in two increments.
- 15 Is that fair to say?
- 16 A That's fair.
- 17 Q Do you know who made that decision?
- 18 A I don't.
- 19 Q Do you recall discussions or ever learning
- 20 the reason that the -- about or ever learning the
- 21 reason underlying the two increment approach?
- 22 A I did hear that it may have -- it may have
- 23 something to do with the smoothing out of that
- 24 transfer over two periods instead of doing it all in
- 25 one.

PAGE 16

297

- 1 Q And what does that mean?
- 2 A To make the impact appear to be less. In
- 3 other words, less noticeable than if you did it all at
- 4 one time.
- 5 Q And who did you hear that from?
- 6 A Steve Spargo.
- 7 Q And less noticeable on the actual internal
- 8 end audit of the financial statements?
- 9 A No. It would only be on the internal,
- 10 because audited statements are only done at June.
- 11 Q Okay.
- 12 So it was -- Mr. Spargo shared with you
- 13 that part of the reason -- that the reason, or at
- 14 least part of the reason, for the two increment
- 15 approach was to make it less obvious because it
- 16 appears in two sets of internal financial statements?
- 17 A Correct.
- 18 Q And less obvious to whom, did you
- 19 understand him to mean?
- 20 A I don't know that he stated who, but I
- 21 would assume it's whoever read it.
- 22 Q Okay.
- 23 And the readers of internal financial
- 24 statements at AHERF included whom generally?
- 25 A Generally the operating CEOs.

PAGE 17

298

- 1 Q Did he express to you any -- did the board
- 2 members get internal financial statements?
- 3 A I don't know if they routinely did, meaning
- 4 I don't know if they got monthly.
- 5 I know there were periodic board meetings
- 6 that financial statements went to.
- 7 I don't know whether March and April
- 8 statements would have gone to a board.
- 9 In other words, whether there was a board
- 10 meeting scheduled to review those statements.
- 11 Q But in any event, board members at board
- 12 meetings, as understood it in this time period, got
- 13 more than the audited financial statements?
- 14 A Oh, correct. Yeah.
- 15 They would get an interim -- generally
- 16 whenever the meeting was, they got the most recent
- 17 available interim statements.
- 18 Q Do you think, from your conversation with
- 19 Mr. Spargo or otherwise, that the decision to make the
- 20 moves in two \$25 million amounts in two different
- 21 periods was made by Mr. Spargo or others?
- 22 A I would believe it was made by others, but
- 23 I don't know that for sure.
- 24 Q Why is it that you believe that?
- 25 A I would believe that David McConnell was at



PAGE 18

299

1 least aware of that decision, because anything of this  
 2 magnitude he would be aware of.  
 3 Q Did you learn that Coopers was involved in  
 4 the decision, or had input into it?  
 5 A I did not.  
 6 Q Did you ever discuss the decision with  
 7 anyone at Coopers, or have it discussed in your  
 8 presence?  
 9 A No.  
 10 Q I think you testified before that you were  
 11 never made aware of an adjustment that Coopers  
 12 requested or demanded on AHERF's financial statements  
 13 that was not made.  
 14 Is that a fair recollection of your  
 15 testimony from yesterday?  
 16 MR. RYAN: Objection.  
 17 A You need to give me some more history as  
 18 to --  
 19 Q Well, let me ask it more simply.  
 20 Yesterday's testimony is yesterday's  
 21 testimony, so let's ask this one: Do you recall  
 22 whether Coopers ever took exception to the \$50 million  
 23 reserve transfers?  
 24 A I learned sometime later, and it may have  
 25 been even in depositions well after the fact, that

PAGE 19

300

1 they may have taken exception, but I didn't know at  
 2 the time.  
 3 Q Okay.  
 4 And in other words, in 1997 and at the time  
 5 of the transfers, you never heard of anybody -- and at  
 6 the close of the audit, you never heard of any  
 7 exceptions?  
 8 A I did not.  
 9 Q And no exceptions were ever expressed to  
 10 you; is that right?  
 11 A No.  
 12 Q Is that right?  
 13 A That's correct.  
 14 Q You never were made aware of any request to  
 15 reserve the transactions; is that right?  
 16 A Again, I had heard much later in  
 17 depositions that there may have been that request made  
 18 to Dan Cancelmi.  
 19 Q But at the time of the transactions, at the  
 20 time of the accounting and before the bankruptcy, you  
 21 never heard that; is that right?  
 22 A Absolutely not.  
 23 Q You never heard it?  
 24 A I did not.  
 25 Q And the depositions you're referring to are

PAGE 20

301

1 depositions in other AHERF-related litigation  
 2 regarding accounting?  
 3 A Correct.  
 4 Q And, in fact, the SEC proceedings --  
 5 A Yes.  
 6 Q -- that are -- that were initiated against  
 7 three of the auditors involved?  
 8 A That's correct.  
 9 Q You were never asked to reverse any of the  
 10 entries; is that right?  
 11 A That is correct.  
 12 Q By Coopers or anyone else?  
 13 A Correct.  
 14 (Thereupon, Deposition Exhibit No. 1543 was  
 15 marked for identification.)  
 16 BY MR. JONES:  
 17 Q Mr. Adamczak, I've handed you what we've  
 18 just marked as Exhibit 1543, which I think you will  
 19 identify for us as a May 1, 1998 memo from you to  
 20 Mr. Abdelhak; is that right?  
 21 A That's correct.  
 22 Q And its subject line is "Divested  
 23 Hospitals" -- "Divested Hospitals' Intercompany  
 24 Payable Balances at March 31, 1998"; is that right?  
 25 A That's correct.

PAGE 21

302

1 Q And in it, you discuss the total of 199 --  
 2 or, \$99.6 million reserve establishment and transfer  
 3 in fiscal year 1997 from Graduate to DVOG; is that  
 4 right?  
 5 A Correct.  
 6 Q What prompted this memo?  
 7 A Sheriff Abdelhak had contacted me somewhere  
 8 around this date and asked me to put together such an  
 9 analysis.  
 10 He wanted to understand the -- the value of  
 11 the reserves that were created and moved, and from  
 12 which hospital to which hospital.  
 13 So I asked Dan Cancelmi to put together an  
 14 analysis that I could basically understand and write a  
 15 narrative to, and he, in essence, constructed the --  
 16 the very last page, page 3, which is the detail of the  
 17 reserve transfers.  
 18 From that, I was able to put a summary  
 19 together in the memo.  
 20 I, then, talked to both Dan and to  
 21 Chuck Morrison relative to page 2 of the memo, which  
 22 gave reasons for the need to move the reserves, in  
 23 essence, why the bad debt deserve was inadequate,  
 24 Being that Dan, again, handled the Delaware  
 25 Valley, and Chuck Morrison was the CFO of that entity,

SHEET 4 PAGE 22

303

1 and had been involved in discussions relative to the  
2 bad debt reserves, they were able to give me the  
3 three points that are included in that memo.

4 Q On the second page of the memo to  
5 Mr. Abdelhak, you considered -- you have some  
6 additional narrative that we will get to.

7 But is it fair to say that you considered  
8 this a fairly important topic, and did your best to be  
9 as accurate as you could in reporting to the CEO of  
10 the operation?

11 A Yes.

12 Q And in the second -- on the second page,  
13 you list individual reserve amounts that were  
14 transferred, and show the total as 99.6 million; is  
15 that right?

16 A That's correct.

17 Q And then just below that total, the very  
18 next sentence read, "It should be noted, that the  
19 above transfers were discussed on more than  
20 one occasion and concurred with by Coopers & Lybrand  
21 prior to such recording."

22 Is that right?

23 A That is correct.

24 Q And that was accurate then, and remains  
25 accurate today?

PAGE 24

305

1 BY MR. JONES:

2 Q Any other conversations?

3 A With Coopers & Lybrand?

4 Q Yes, about the topic.

5 A No.

6 Q So the basis for the sentence is some  
7 personal conversations on your part?

8 A Yes.

9 Q And the reporting of Mr. Cancelmi?

10 A Correct.

11 Q And anything else?

12 A No.

13 Q On the first page of the document, you  
14 state in the second paragraph that, "During the latter  
15 part" -- or, "the later part of fiscal year 1997  
16 approximately 99.6 million of reserves established as  
17 part of the Graduate acquisition, and subsequently  
18 determined to be cushion from a Graduate perspective,  
19 were transferred from the Graduate entities to  
20 either" -- "to other DV entities."

21 Do you see that sentence?

22 A I do.

23 Q What did you mean by "subsequently  
24 determined to be cushion"?

25 A Subsequently either determined not to be

PAGE 23

304

1 MR. RYAN: Objection.

2 A Yes.

3 The basis are the memos that we previously  
4 discussed, where Dan had, in fact, mentioned that it  
5 was approved by Coopers & Lybrand.

6 Q And you had at least a couple conversations  
7 with and/or in the presence of the auditors about the  
8 transfers yourself; is that right?

9 MR. RYAN: Objection.

10 A That is not correct.

11 Q You had a couple -- you had a conversation  
12 with Mr. Kirstein at which the \$50 million transfer  
13 was discussed; is that right?

14 A It was introduced, yes.

15 Q So the topic was discussed?

16 A Yes.

17 Q And then you had an audit closing  
18 meeting -- or, I'm sorry, you had at least another  
19 audit update meeting at which Mr. Buettner discussed  
20 the beauty of purchase accounting; is that right?

21 A That's correct, and I believe that he was  
22 discussing this.

23 Q These Graduate reserve transfers?

24 A Correct.

25 MR. RYAN: Objection.

PAGE 25

306

1 needed, or that the reserves were in excess of what  
2 was needed.

3 (Thereupon, Deposition Exhibits Nos. 1544  
4 and 1545 were marked for identification.)

5 BY MR. JONES:

6 Q Mr. Adamczak, we've handed to you now  
7 Exhibits 1544 and 1545.

8 The first one, 1544, bears -- bears Bates  
9 No. JD-SA-0001729.

10 And the second one bears Bates No. -- and  
11 that is Exhibit 1545 -- bears Bates No. DBR-AA 38808.

12 These are two memos from you to  
13 Mr. Abdelhak again; am I right?

14 A Yes.

15 Q The first one is dated May 6, that is,  
16 Exhibit 1544; is that right?

17 A May 6th, correct.

18 Q And Exhibit 1545 is dated the very next  
19 day; is that right?

20 A That's correct.

21 Q And they appear to be very similar and  
22 almost identical in content. They're one-page  
23 documents; is that right?

24 A Correct.

25 Q In both of them, you note that the

PAGE 34

315

1 reserve transfers, the Delaware Valley shortfall in  
2 bad debt reserve was at a figure that Mr. Cancelmi  
3 approximates at \$25 million.

4 Is that right?

5 A That's correct.

6 Q So now even after all 50 have been moved,  
7 the problem continues?

8 A Correct.

9 Q I'm handing you now a one-page exhibit  
10 previously marked 1093, and it is headed,  
11 Mr. Adamczak, "David McConnell Bi-weekly Meeting  
12 Agenda May 30, 1997."

13 Is this an agenda you would have prepared?

14 A I believe that Dan Cancelmi and I both  
15 prepared it.

16 In other words, some of the items were his  
17 and some we are mine.

18 Q And these were meetings that you two  
19 typically had with Mr. McConnell together in this time  
20 period?

21 A There may have only been this one that we  
22 both attended.

23 I think it was -- this meeting occurred,  
24 and then there were no meetings for a period of time,  
25 and then Dave had appointed me to the position that

PAGE 36

317

1 A At least brought up.

2 (Thereupon, Deposition Exhibit No. 1546 was  
3 marked for identification.)

4 BY MR. JONES:

5 Q Mr. Adamczak, we just handed you what was  
6 marked Exhibit 1546. It's another Al Adamczak weekly  
7 meeting agenda?

8 A Yes.

9 Q Dated June 30, 1997?

10 A Yes.

11 Q Does this reflect another meeting with  
12 Mr. McConnell?

13 A Yes.

14 This would have been one of the weekly  
15 meetings that we had.

16 Q And, again, given what you just said, this  
17 is likely to have been a meeting between just the  
18 two of you?

19 A Correct.

20 Q And No. 1 on the agenda here is "Delaware  
21 Valley Bad Debt Reserve Shortfall"; is that right?

22 A Yes.

23 Q Do you recall in specific anything  
24 discussed at that time meeting?

25 A Yes.

PAGE 35

316

1 Steve held, and Dan reported to me.

2 And I think one of his reasons for doing  
3 that is, he didn't -- didn't like to have two or  
4 three people from accounting report to him.

5 He liked to have as few reports to him as  
6 possible.

7 Q Did he tell you why?

8 A No.

9 Q The handwritten notes are yours or  
10 Mr. Cancelmi's, or somebody else's?

11 A They're mine.

12 Q And they just reflect that you and Dan were  
13 in attendance; is that right?

14 A Correct.

15 Q The last bullet on the agenda is  
16 "Graduate" -- reads "Graduate Reserves Earmarked for  
17 DV Bad Debt Reserve."

18 Do you see that?

19 A I do.

20 Q Do you recall the conversations at the  
21 meeting about that topic?

22 A I do not.

23 Q You're fairly certain from the fact that it  
24 was on the agenda that the topic was, however,  
25 discussed?

PAGE 37

318

1 Q What do you recall?

2 A I believe that it -- if you refer back  
3 to the exhibit that you had just given me,  
4 Exhibit 41.

5 Q Yes.

6 A Do you remember that was distributed in or  
7 around June 20th, and spoke about an additional  
8 shortfall of 25 million above the 50?

9 My recollection is that I talked to David  
10 about that additional 25, and asked him what he  
11 wanted -- how that should be handled.

12 Q And is this the -- is this the conversation  
13 that you testified to yesterday, in which  
14 Mr. McConnell's reaction was generally that we were to  
15 fix the problem by year end?

16 A Yes.

17 And that Coopers was aware of the issue,  
18 and they were on board with having it disposed of by  
19 year end.

20 Q And you took that to me that additional  
21 reserves transfers, if and where available, were to be  
22 made to resolve the problem by year end?

23 A Yes.

24 (Thereupon, Deposition Exhibit No. 1547 was  
25 marked for identification.)

SHEET 6 PAGE 38

319

1 BY MR. JONES:

2 Q We've handed you just now, Mr. Adamczak,  
3 what was marked as Exhibit 1547, which is a memo from  
4 Mr. Cancelmi to you dated July 3rd, 1997.

5 Do you recall receiving this brief memo?

6 A I do.

7 Q And in the first sentence, Mr. Cancelmi  
8 states, "In order to address two of the more  
9 pronounced exposure areas prior to our year end audit,  
10 various reserves have been utilized to eliminate bad  
11 debt reserve shortfalls and Health Partners deficits."

12 Do you see that opening sentence?

13 A I do.

14 Q What did you understand him to mean by  
15 "more pronounced exposure areas"?

16 A The bad debt reserve shortfall appeared to  
17 have been an item of concern back at the end of the  
18 '96 audit, and it continued to be troublesome  
19 throughout '97.

20 As you have seen through the various memos,  
21 there were shortfalls, and I think this was, you know,  
22 Dan just formalizing that in writing, that this --  
23 this hopefully would bring the bad debt reserve back  
24 into line with where -- where it needed to be.

25 Q On the second page of the memo, does

PAGE 40

321

1 identified through the end of May.

2 Upon preliminary -- preliminarily closing  
3 June's general ledger, there was an additional  
4 shortfall of some \$20 plus million that was  
5 unanticipated, and this was the discussion with David  
6 as to make him aware that he was short another  
7 28 million.

8 Q So I'm going to ask you to flip back  
9 one exhibit.

10 Exhibit 1547 shows 25 million of the  
11 transfers and other adjustments on top of the original  
12 50; is that right?

13 A That's correct.

14 Q And the weekly agenda -- weekly meeting  
15 agenda for July 28, 1997 indicates to you and causes  
16 you to recall, or you recall otherwise, that you  
17 visited with Mr. McConnell again about a continuing  
18 shortfall even after the additional 25?

19 A Correct.

20 Q And at this meeting, you recall discussing  
21 a figure of about 28?

22 A Yes.

23 Q 28 million?

24 A Yeah.

25 Q What was Mr. McConnell's reaction to this

PAGE 39

320

1 Mr. Cancelmi provide you an attachment which shows  
2 the shortfall and the reserves that had been  
3 transferred?

4 A Yes.

5 (Thereupon, Deposition Exhibit No. 1548 was  
6 marked for identification.)

7 BY MR. JONES:

8 Q Exhibit 1548, which you now have before  
9 you, Mr. Adamczak, is another Al Adamczak weekly  
10 meeting agenda, dated this time July 28, 1997.

11 Is that right?

12 A That's correct.

13 Q This would have reflected another meeting  
14 between you and Mr. McConnell only?

15 A That's correct.

16 Q Again, topic No. 1 is "Delaware Valley Bad  
17 Debt Reserve Shortfall"?

18 A Correct.

19 Q Do you recall the discussions in this  
20 meeting?

21 A Yes.

22 Q What do you recall about them?

23 A As we just talked about, 25 million were  
24 moved sometime around the end of June, beginning of  
25 July, to cover \$25 million shortfall that was

PAGE 41

322

1 topic?

2 A He then -- he reaffirmed that, you know,  
3 the issue was to be dealt with by year end, that all  
4 parties were involved, on board, including Coopers,  
5 and that he asked me to go back to Dan Cancelmi to see  
6 whether there were adequate reserves or additional  
7 reserves on Graduate or elsewhere to cover this  
8 shortfall.

9 So I went back and asked Dan --

10 Q Before you get there, can I stop you for a  
11 moment?

12 A Sure.

13 Q Do you remember anything more about the  
14 conversation with Mr. McConnell on this topic?

15 A No.

16 Q Did you ever have another with  
17 Mr. McConnell on this topic, the Graduate reserve  
18 transfers or reserve transfers of any kind to the  
19 Delaware Valley?

20 MR. RYAN: Other than what he's already  
21 testified to?

22 MR. JONES: Yes.

23 BY MR. JONES:

24 Q I'm talking about additional to the ones  
25 you've testified today.



PAGE 42

323

1 A I don't remember.  
 2 Q So this would have been your last  
 3 conversation on reserve transfers with Mr. McConnell?  
 4 A I believe so.  
 5 Q All right.  
 6 Go ahead. What you did next was to speak  
 7 with Mr. Cancelmi, I think you were telling us?  
 8 A Yeah, and ask him whether there were  
 9 sufficient reserves in the Delaware Valley either on  
 10 Graduate or any of the Delaware Valley hospitals that,  
 11 in essence, could be used to cover the shortfall that  
 12 he, in essence, had identified, that additional 28 was  
 13 identified by him in the preliminary closing process.  
 14 Q And the "him" in that sentence is Dan?  
 15 A Dan, was Dan.  
 16 Dan then came back and relayed that there  
 17 were, and he may have even put a list together as to  
 18 where the reserves were.  
 19 And I talked -- when you said did I ever  
 20 talk to David McConnell again after that, I would  
 21 have, because I went back to him with this list of  
 22 reserves, or at least Dan's representation that there  
 23 were adequate reserves to cover that 28.  
 24 And he said, "Fine, make the entries."  
 25 Q And was this -- can you put a time frame on

PAGE 43

324

1 that additionally recalled conversation with  
 2 Mr. McConnell?  
 3 A No, but it -- it probably was not long  
 4 after this July 28th.  
 5 Q This was something you were trying to do  
 6 promptly?  
 7 A Right. I would think it was in the next  
 8 week. Probably no longer than two weeks.  
 9 Q Okay.  
 10 And his -- you received his approval again?  
 11 A That's correct.  
 12 Q Anymore to that conversation other than the  
 13 essentially, "I approve"?  
 14 A No.  
 15 I then went back to Dan and told him that  
 16 it was approved, to book the adjustments.  
 17 Q Did he mention Coopers again,  
 18 Mr. McConnell, in the approval conversation?  
 19 A I don't remember.  
 20 Q Did you have any concerns at the time about  
 21 the propriety of these additional moves?  
 22 A Absolutely.  
 23 Q What were those concerns?  
 24 A Again, the magnitude of them moving from  
 25 one entity to the other, that kind of a thing.

PAGE 44

325

1 The way that I was able to get past that,  
 2 in my mind, was that Coopers was on board with it and  
 3 understood it.  
 4 Q You took some comfort from that?  
 5 A I did.  
 6 Q And why?  
 7 A Because they were supposedly an independent  
 8 expert in the field, where I had been away from it for  
 9 several years.  
 10 Q In part, that's what you hired them to do?  
 11 A Correct.  
 12 MR. RYAN: Objection.  
 13 BY MR. JONES:  
 14 Q And that is, be an independent expert in  
 15 the field?  
 16 MR. RYAN: Objection.  
 17 A That is correct.  
 18 Q I'm handing you now, Mr. Adamczak,  
 19 Exhibit 320. I'm going to ask you take a look at this  
 20 document for a while, and tell me you've ever seen it  
 21 before.  
 22 I will tell you that the Bates label  
 23 indicates to me that it was produced perhaps from the  
 24 files of Robin Schaffer.  
 25 A I have seen this. I did not see it during

PAGE 45

326

1 this time frame.  
 2 Q During which time frame?  
 3 A The '97 audit time frame.  
 4 Q When did you first see it?  
 5 A Sometime months afterward. Probably  
 6 sometime around bankruptcy, or after bankruptcy, when  
 7 some of these issues arose.  
 8 When I asked Dan Cancelmi, again, whether  
 9 he was sure that Coopers was aware of all the reserve  
 10 transfers, and his comment was --  
 11 Q When say "all," you mean the 99.6 --  
 12 A The 99, yeah.  
 13 Q -- .6 total?  
 14 A Correct.  
 15 And his comment to me was, "I'm sure they  
 16 have, it's even in work papers that we had given to  
 17 them."  
 18 Q And this --  
 19 A And he showed me at least one or two of  
 20 these analyses that include footnotes that spoke to  
 21 reserve transfers.  
 22 Q And this analysis was then provided to you  
 23 by Mr. Cancelmi?  
 24 A I don't -- he did not provide it to me. He  
 25 showed it to me in his office.

SHEET 7 PAGE 46

327

1 I don't know that I ever took a copy of it,  
 2 or had a copy, possessed a copy.  
 3 Q I see.  
 4 It was shown to you, in any event?  
 5 A Correct.  
 6 Q And did it give you more comfort?  
 7 A Absolutely.  
 8 Q And I'm going to ask you then, the topic --  
 9 or, the topic line or the first line of the document,  
 10 on the first page, I'm sorry, reads "Amounts Per  
 11 Attached Analyses Provided to Auditors" in thousands;  
 12 is that right?  
 13 A Yes, that's what it says.  
 14 Q Thousands of dollars; is that right?  
 15 A Correct.  
 16 Q And on the -- I'm going to ask you to flip  
 17 to the next page, the second page of the document, and  
 18 can you identify what this page is?  
 19 A It looks to me to be a roll forward by  
 20 month of reserves for bad debt.  
 21 Q At MCP inpatient?  
 22 A Correct.  
 23 That starts with a beginning balance for  
 24 any given month, and the -- a detailed activity of  
 25 categories as to what took place resulting in the

PAGE 48

329

1 A Correct.  
 2 Q And then the second footnote, footnote G,  
 3 that I was referring to, reads, "Includes  
 4 \$5.591 million year end," or "YE shortfall adjust".  
 5 Is that right?  
 6 A That's correct.  
 7 Q Are those the kinds of --  
 8 MR. RYAN: The footnote does go on to  
 9 say --  
 10 MR. JONES: I'm sorry.  
 11 BY MR. JONES:  
 12 Q The footnote goes on and says other things,  
 13 including "\$34,000," roughly, "accounts receivable  
 14 reconciliation adjustment, EPPI bad debt transfer of  
 15 \$5,281,000," roughly; is that right?  
 16 A It does.  
 17 Q Are these the kinds of footnotes that gave  
 18 you comfort, that the auditors knew about the  
 19 transfers to which you just referred?  
 20 A Yes.  
 21 MR. RYAN: Objection.  
 22 BY MR. JONES:  
 23 Q What about them gave you comfort?  
 24 MR. RYAN: Objection.  
 25 A The fact that it states that the transfers

PAGE 47

328

1 ending balance at the end of the month.  
 2 Q And MCP was the Medical College of  
 3 Pennsylvania Hospital?  
 4 A That's correct.  
 5 Q And that is a DVOG hospital?  
 6 A Yes, it is.  
 7 Q I'm going to direct your attention to a  
 8 couple footnotes that appear, and before I do that, it  
 9 was your understanding that Mr. Cancelmi -- strike  
 10 that.  
 11 Mr. Cancelmi told you that these documents  
 12 were shared with the auditors?  
 13 A That's correct.  
 14 Q At the time of the audit?  
 15 A Yes.  
 16 Q For fiscal year '97?  
 17 A Yes.  
 18 Q The footnotes I was going to refer you to  
 19 before, and will now, are F and G.  
 20 F reads, "Includes Past Statute write-off  
 21 of \$139,000," roughly, "and reserves from Graduate of  
 22 \$15 million."  
 23 Is that right?  
 24 A That's correct.  
 25 Q And the "15 million" is circled?

PAGE 49

330

1 were made.  
 2 Q Do the words "year end shortfall  
 3 adjustment," are those important words to you, as  
 4 well?  
 5 A They are, but not as much as the fact that  
 6 it says transfer reserves from Graduate.  
 7 Q As an auditor, when you see things like  
 8 "year-end shortfall adjustment" in an amount of  
 9 five and a half million dollars, what does that tell  
 10 you to do?  
 11 MR. RYAN: Objection.  
 12 A Well, what that tells me is that before  
 13 this adjustment was made, there was a shortfall or a  
 14 deficiency, and that there was a transfer made to make  
 15 up for that shortfall.  
 16 As an auditor, I would ask where the  
 17 transfer came from, and how it was recorded.  
 18 Q You'd ask other questions?  
 19 A Correct.  
 20 Q You'd do follow up?  
 21 A I would.  
 22 Q Because year-end adjustments of this  
 23 magnitude are things that need to be tracked?  
 24 MR. RYAN: Objection.  
 25 A Unless I -- unless I knew what had

PAGE 50

331

1 happened.  
 2 Q Unless you already knew the facts?  
 3 A Right.  
 4 MR. JONES: Let's take a break here.  
 5 THE VIDEOGRAPHER: We are off the record.  
 6 The time is 9:21 a.m.  
 7 (Recess taken.)  
 8 THE VIDEOGRAPHER: Standby, please.  
 9 We're back on the record. The time is  
 10 9:33 a.m.  
 11 BY MR. JONES:  
 12 Q Mr. Adamczak, I'm going to ask you now  
 13 about the \$28.3 million set of reserves or other  
 14 adjustments that were made as the last part of the  
 15 99.6.  
 16 Do you recall that from our prior  
 17 discussions?  
 18 A I do.  
 19 Q Whose idea was it to make those transfers?  
 20 A When you say "idea," what --  
 21 Q Do you recall ever knowing who first  
 22 proposed that last set of moves?  
 23 A Well, there was a shortfall in the  
 24 preliminary close that I talked to David McConnell  
 25 about.

PAGE 51

332

1 And as I mentioned, he asked me to go back  
 2 to Dan Cancelmi and ask him whether there were  
 3 adequate reserves of any type anywhere in the Delaware  
 4 Valley that could cover those shortfalls.  
 5 Q Or the Graduate?  
 6 A Correct.  
 7 Q And that -- that's what led ultimately to  
 8 the 28.3?  
 9 A Correct.  
 10 Q Handing you now what has been marked as  
 11 Exhibit 49 in a prior deposition.  
 12 Do you recognize this document?  
 13 A Yes.  
 14 Q What is it?  
 15 A It looks like an analysis that takes the  
 16 unadjusted, meaning preliminary, June results, bottom  
 17 line income or expense, and shows some analysis coming  
 18 over to an adjusted June year to date income, and  
 19 compares it to the -- the 1997 budget, the 1997  
 20 projection that was prepared with the 1998 budget, and  
 21 the 1996 actual results.  
 22 Q And the heading of the document is "AHERF  
 23 Income Statement Information FY 97"?  
 24 A Correct.  
 25 Q There is a column -- actually, the

PAGE 52

333

1 information is also broken down for total DVOG; is  
 2 that right?  
 3 A That is correct.  
 4 Q And there is a column called "Use of  
 5 Reserves."  
 6 Am I right?  
 7 A That's correct.  
 8 Q And the total there for apparently used at  
 9 DVOG is what sum?  
 10 A 22,800,000, although they're Centennial,  
 11 which was also in the Delaware Valley, which is  
 12 another four million, and New Jersey, which is  
 13 two million five.  
 14 So if I read all -- all the uses in the  
 15 Delaware Valley, it's 31 million 550 minus 2 million  
 16 250.  
 17 Q And how is it that you first came to  
 18 possess or see this document?  
 19 A I believe either I or Dan put this  
 20 together.  
 21 Q Through the use of these reserves, the  
 22 income statement information depicted comes much  
 23 closer to meeting the budgeted expectations; is that  
 24 fair to say?  
 25 A That's correct.

PAGE 53

334

1 Q And without it, it falls significantly  
 2 short; is that fair to say? Without the use of the  
 3 reserves referenced?  
 4 A Yes.  
 5 As a matter of fact, I believe that with  
 6 the use of the reserves, the adjusted number comes  
 7 pretty close to the projected amount.  
 8 Q And is the -- are the reserves listed in  
 9 this schedule part of the 28.3 third installment of  
 10 reserve moves?  
 11 A I believe that they are.  
 12 Q Is there -- do you recall whether there was  
 13 a May move that may have caused the numbers not to tie  
 14 directly together, that involved a portion of the  
 15 28.3, as you sit here today?  
 16 A I need -- I need you to ask that again.  
 17 Q Do you recall that there was a roughly  
 18 \$7 million move in May of the year that would have  
 19 been reflected on this schedule, but was still a part  
 20 of the 28.3?  
 21 A I don't remember that.  
 22 (Thereupon, Deposition Exhibit No. 1549 was  
 23 marked for identification.)  
 24 BY MR. JONES:  
 25 Q Mr. Adamczak, I've just handed you what

SHEET 8 PAGE 54

335

1 we've now marked as Exhibit 1549, which appears to  
2 have been produced from your files, and I believe has  
3 a handwritten note from Mr. Cancelmi to you on the  
4 first page.

5 Do you remember receiving this document?

6 A I do.

7 Q About when do you think you got it?

8 A Again, I know this was not in the time  
9 frame of the '97 audit. It was some -- some  
10 subsequent period.

11 Q So after August of '97, at least?

12 A At least.

13 Q Do you recall getting it before or after  
14 bankruptcy? If you can.

15 A I don't remember, but I believe it probably  
16 was after.

17 Q And do you recall the circumstances under  
18 which you came to possess it? Did you ask for some  
19 back up?

20 A Yeah.

21 Again, it was through subsequent  
22 inquiries. I don't know whether it was when the PWC  
23 representative came on behalf of the board, or there  
24 was some inquiry, or some initiative to better  
25 understand something that happened back in the -- the

PAGE 56

337

1 Q And what does the schedule generally depict  
2 for you?

3 A To me, it looks like the source of  
4 \$28.3 million worth of reserves identified by hospital  
5 and by category of where the reserve was.

6 Q And these 28.3 million of reserves that  
7 were transferred from the Graduate hospitals to the  
8 Delaware Valley hospitals went to a different account  
9 than the first 50 and the second 21; am I right on  
10 that?

11 A I believe that's true.

12 Q What is it that you recall about the  
13 account that these latter 28.3 were received in at the  
14 Delaware Valley hospitals?

15 A I don't remember.

16 Q Was it to reduce contractual allowance?

17 A That's what it says in the one memo that we  
18 previously had looked at, but I didn't remember that.

19 Q Do you recall any discussions, at the time  
20 of these moves or after, that the 28.3 million was  
21 moved in the hope of meeting budgeting income?

22 A I heard about it much later.

23 Q And how is it that you heard about it?

24 A I had asked Dan Cancelmi, and he  
25 mentioned that.

PAGE 55

336

1 June '97 time frame.

2 And, again, I asked Dan, you know, "You're  
3 sure that Coopers was on board or knew about these  
4 transfers?"

5 And he produced this document, or sent this  
6 document to me.

7 Q Could you read the handwritten note?

8 A Sure.

9 It says, "To AJ," "AJ, attached is the  
10 info I found to confirm that C&L knew about the  
11 28.3 million."

12 Q And that is in Mr. Cancelmi's hand?

13 A Signed "Dan," yes.

14 Q And you were familiar with his handwriting?

15 A It looks -- sure looks like it.

16 Q And you are familiar with his handwriting?

17 A I am.

18 Q And the heading of the document is -- of  
19 the first page of the first document, in any event, is  
20 "Graduate System Reserves Fiscal Year Ended June 30,  
21 1997"; is that correct?

22 A That is correct.

23 Q And the grand total at the bottom of the  
24 schedule is what?

25 A 28,300,000.

PAGE 57

338

1 Q What did he say to you about that?

2 A That the actual results for June were less  
3 than anticipated, and it was not all due to the  
4 shortfall in the bad debt reserve.

5 Q And that -- and what about needing to make  
6 the moves to meet budget?

7 A That these moves accomplished that.

8 Q This was a post June move, or near about  
9 June move?

10 A It was a post June on a calendar date, but  
11 it was in the June close.

12 Q And when was this conversation had with  
13 Mr. Cancelmi about the motive?

14 A Sometime in or around bankruptcy, if not  
15 after.

16 Q Was anybody else present?

17 A Not that I'm aware of.

18 Q Do you recall whose decision it was to move  
19 these 28.3 to contractual allowance expense, if that's  
20 where they were moved to?

21 A I don't.

22 Q Did you review the content of the schedules  
23 that are attached to the face page of Exhibit 1549  
24 when you received the memo?

25 A Not in detail.



PAGE 58

339

1 I took a quick look through them.  
 2 Q Did you understand these pages to have been  
 3 information either provided to or available to Coopers  
 4 during the audit process?  
 5 A I did.  
 6 MR. RYAN: Objection.  
 7 BY MR. JONES:  
 8 Q Did you understand them to have been  
 9 provided to them?  
 10 A Yes.  
 11 Q If Coopers or anyone at Coopers & Lybrand  
 12 had any questions about any entry on these pages, what  
 13 additional information could have been available --  
 14 made available to them, kinds of additional  
 15 information?  
 16 A Oh, I think at a minimum, they could have  
 17 sat down with somebody and had it explained to them in  
 18 very -- very detail.  
 19 Q Could they have also asked for additional  
 20 documentation or pull forwards?  
 21 A Absolutely. Absolutely.  
 22 Q Could they have asked to view general  
 23 ledger entries on the screens?  
 24 A Yes, or specific copies of the journal  
 25 entries themselves.

PAGE 59

340

1 Q In hard copy?  
 2 A Correct.  
 3 Q They could have made queries, could have  
 4 asked for queries to have been made of the general  
 5 ledger system?  
 6 A Yeah.  
 7 As a matter of fact, generally one of the  
 8 process -- or, procedures that an auditor does is to  
 9 review all big journal entries during the year for  
 10 unusual items.  
 11 Q Were there paper copies of journal entries  
 12 maintained at AHERF that would have been available to  
 13 C&I?  
 14 A Yes.  
 15 Q How were they maintained?  
 16 A I believe each hospital had its own set of  
 17 files of journal entries, and they were maintained in  
 18 a file by month.  
 19 Q Were they in binders, or file gussets, or  
 20 some other maintenance procedure?  
 21 A I don't necessarily remember.  
 22 Q When Mr. Cancelmi told you that the  
 23 28.3 slug of reserve transfers was at least in part  
 24 motivated by a desire to have income performance look  
 25 closer to budget at year end 1997, did he tell you

PAGE 60

341

1 where he heard that from himself, if it was from  
 2 somebody else?  
 3 A No.  
 4 Q Do you have any knowledge about whether it  
 5 was Mr. Cancelmi's or somebody else's idea to make the  
 6 \$28.3 million move?  
 7 A I don't believe it would have been his idea  
 8 to move.  
 9 Q And why is that?  
 10 A Again, he nor I have any authority to do  
 11 anything like that.  
 12 Q Mr. Adamczak, I'm handing you now what  
 13 we've marked as Exhibit 301.  
 14 Have you seen this document before?  
 15 A I have.  
 16 Q What is it?  
 17 A This was some attempt to determine the  
 18 amount of cushions or unusual items that were in  
 19 income in 1987 that was prepared after June 30th.  
 20 Q The memo itself was?  
 21 A The analysis was.  
 22 Q And handwriting on the first page is yours?  
 23 A It is.  
 24 Q And it's addressed to "David," as in  
 25 David McConnell?

PAGE 61

342

1 A That's correct.  
 2 Q I'm going to ask you to flip to the  
 3 second page for a moment, and in it is a table that's  
 4 headed "Delaware Valley Hospitals Fiscal Year 97 Use  
 5 of Cushions" in millions of dollars.  
 6 Is that right?  
 7 A That's correct.  
 8 Q Did you prepare this table?  
 9 A With the input of Dan Cancelmi, yes.  
 10 Q And it notes that, in total, net income in  
 11 the Delaware Valley hospitals was improved or  
 12 increased by what figure through the use of cushions?  
 13 A Could you repeat that one more time?  
 14 Q The schedule or table tells the reader that  
 15 Delaware Valley hospitals' net income would have been  
 16 improved through the use of cushions by what total  
 17 figure in fiscal year 1997?  
 18 A 75 million.  
 19 Q And where do you pull the number from?  
 20 A The middle column, "Transfers from Graduate  
 21 to Cover Shortfall and Bring Bad Debt Allowance to  
 22 Required Levels."  
 23 Q I think I'm looking at page 2 of the  
 24 document, and you may be looking at a different one.  
 25 A Oh, you're right.

SHEET 9 PAGE 62

343

1 Q Does this give you a different figure?  
 2 Page 2, that is.  
 3 A Yeah, let me -- 59.1 million.  
 4 Q And that's the total?  
 5 A Correct.  
 6 Q It notes "Graduate Cushions" in a column --  
 7 MR. RYAN: I apologize.  
 8 BY MR. JONES:  
 9 Q -- "Transferred and taken into Income" of  
 10 only \$7 million.  
 11 Does -- is that because the table may have  
 12 been prepared before the last 21.3 --  
 13 A No, the table would have been --  
 14 Q -- of the -- let me finish the question.  
 15 -- of the 28 had been moved?  
 16 A I believe this analysis was prepared after  
 17 the 28 was moved.  
 18 Q Was there -- can you explain, then, why you  
 19 would only have seven in that column as a total?  
 20 A No, I don't remember why.  
 21 Q Okay.  
 22 59.1, or something even greater, as you  
 23 referred to a moment ago, would have been a material,  
 24 to you, number in terms of the Delaware Valley income  
 25 statement; is that fair to say?

PAGE 63

344

1 MR. RYAN: Objection.  
 2 A That's fair.  
 3 Q It's a big number?  
 4 A Yes, it is.  
 5 Q And if the statement of operations or  
 6 income statement at the Delaware Valley had been  
 7 improved inappropriately by that number, a reader of  
 8 the financial statements would have been misled as to  
 9 operations in fiscal year 1997 at the Delaware -- at  
 10 the Delaware Valley, is that right, the success of  
 11 those operations?  
 12 A I believe so.  
 13 Q Mr. Adamczak, I'm going to shift gears for  
 14 a minute or more and ask you now to talk with us a  
 15 little bit about the accounting for intercompany  
 16 transfers.  
 17 A Okay.  
 18 (Thereupon, Deposition Exhibit No. 1562 was  
 19 marked for identification.)  
 20 BY MR. JONES:  
 21 Q We've handed you now what we've marked as  
 22 Exhibit 1562, which is a memo from you to Mr. Spargo,  
 23 dated August 27, 1996; is that right?  
 24 A That's correct.  
 25 Q And that's your name and signature, at

PAGE 64

345

1 least your first name, in the "From" line?  
 2 A Correct.  
 3 Q And it deals with a problem you mentioned  
 4 yesterday, that is, the memo deals with a problem you  
 5 mentioned yesterday, which was cash receipts, or the  
 6 lack thereof; is that right?  
 7 A Yes.  
 8 Q And, in fact, the last line -- lines of  
 9 the first paragraph state, "Overall, I believe that  
 10 cash collection shortfalls were probably in the  
 11 neighborhood of some 70 to 80 million for fiscal  
 12 year 1996, and this excludes making any progress on  
 13 the \$62 million increase in A/R during fiscal year  
 14 1995"; is that right?  
 15 A Yes.  
 16 Q So does this refresh your recollection that  
 17 the cash difficulties you recalled being in play at  
 18 AHERF were in play in fiscal year 1996, as well?  
 19 A Yes.  
 20 I believe they were heightened in '97 or  
 21 got worse.  
 22 Q They were not easy problems in 1996; is  
 23 that fair to say?  
 24 A I think that's fair to say.  
 25 Q They were significant challenges?

PAGE 65

346

1 A Yes.  
 2 Q And this shortfall that is referred to here  
 3 was an eastern part of the enterprise, or was this an  
 4 overall shortfall?  
 5 A I believe it's overall.  
 6 Q But it was primarily, if you look at the  
 7 second page, driven by eastern hospitals' shortfalls;  
 8 is that fair to say?  
 9 A Yes.  
 10 MR. RYAN: Objection.  
 11 BY MR. JONES:  
 12 Q And the AIHG enterprise, which was a  
 13 physician practices acquisition enterprise; is that  
 14 right?  
 15 A That's correct.  
 16 Q In fact, the shortfall at AGH was the  
 17 smallest shortfall on the table on page 2?  
 18 A That's correct.  
 19 Q You recall, Mr. Adamczak, that from time to  
 20 time, western hospitals were called upon to advance or  
 21 loan money to AHERF, which would then be loaned to  
 22 eastern region affiliates to make up for this cash  
 23 shortfall?  
 24 A That's correct.  
 25 Q What funds in western hospitals do you

PAGE 66

347

1 recall being affected by these loans or advances?

2 A Generally, it was the funds that we  
3 referred to as funded depreciation funds.

4 Q And funded depreciation generally is what?

5 Well, first at what hospitals?

6 A Generally, it was Allegheny General  
7 Hospital.

8 Q And then what is generally funded  
9 depreciation?

10 A Generally funded depreciation are  
11 investments or cash that are put aside under the  
12 theory that, over time, your assets, your major assets  
13 wear out, and this is a way of saving cash to fund the  
14 replacement of those assets in the future.

15 From a very theoretical perspective, your  
16 depreciation expense is noncash, meaning it's an  
17 expense that hit your income statement, but it's  
18 noncash.

19 Hospitals traditionally or used to set that  
20 amount of cash aside, with the understanding that  
21 although it was noncash, if they could put that cash  
22 aside, that as the asset was used, which depreciation  
23 is reflective of, they'd have enough cash to replace  
24 that asset when it was fully used up.

25 Q Whose idea was it to make the loans or

PAGE 68

349

1 Q What do you recognize it to be?

2 A A set of monthly financial statements for  
3 Allegheny General Hospital for the period ending  
4 March 31st, 1996.

5 Q And that's still in the fiscal year 1996?

6 A That's correct.

7 I'm going to ask you to flip to the balance  
8 sheet, and you'll find that at page 87661.

9 Are you with me?

10 A I'm there.

11 Q And on the "Assets" side of the balance  
12 sheet, there's a column entitled, "Current Assets";  
13 right?

14 A Correct.

15 Q And there is an -- a row, I'm sorry, a row  
16 entitled "From affiliates"; is that right?

17 A That's correct.

18 Q And it is a receivable row?

19 A That's correct.

20 Q And the amount is \$25,771,000 as of  
21 March 31?

22 A That is correct.

23 Q And as of June 30, 1995, the prior year  
24 end, the amount was zero; is that right?

25 A That is correct.

PAGE 67

348

1 advances, and use funded depreciation as the source?

2 A Well, I think ultimately it was  
3 David McConnell's choice and Sheriff Abdelhak would  
4 have to be aware that funded depreciation was used,  
5 and that he would see his investments going down as he  
6 looked at the financial statements.

7 As far as a choice, I think it was a choice  
8 that had to be made because there were bills to be  
9 paid.

10 Q Who approved the loans as they were called  
11 for?

12 A I believe that David McConnell authorized  
13 withdrawals from funded depreciation.

14 Q And why do you say you believe that?

15 A I seem to remember -- and that was handled  
16 through the treasury department.

17 I seem to remember there being a letter  
18 issued or something every time that happened from  
19 David McConnell approving the draw down, or the  
20 liquidation of funded depreciation funds.

21 Q Mr. Adamczak, I've just handed you what  
22 we've marked as Exhibit 534.

23 Do you recognize this, recognize this  
24 document?

25 A I do.

PAGE 69

350

1 Q Under an additional "Asset" heading, there  
2 is an amount for "Investments limited or restricted as  
3 to use by the board of trustees" of \$145,608,000; is  
4 that right.

5 A That is correct.

6 Q What does restricted by board of trustees  
7 mean, "restricted as to use"?

8 A Those are the funded depreciation assets  
9 for the most part that you spoke about.

10 Generally, they are unrestricted, meaning  
11 they are -- they can be used by the organization as  
12 the organization sees fit.

13 In other words, they are not external  
14 restrictions by donors or unrelated parties.

15 Q They are more liquid than these externally  
16 restricted assets?

17 A Well, not only liquid, but available for  
18 use, so the operations of the hospital at their  
19 discretion.

20 Generally, the board of directors -- or,  
21 not generally.

22 The board of directors at most hospitals  
23 may be required to approve the use of those funds, but  
24 they may not be.

25 It's a hospital by hospital designation.

SHEET 10 PAGE 70

351

1 Q I hand you now what we've marked as  
 2 Exhibit 535. It is entitled "Financial Statement  
 3 Highlights," "Allegheny General Hospital," "Month  
 4 ended March 31, 1996."  
 5 And the page deals with the balance sheet;  
 6 is that right?  
 7 A It does.  
 8 Q In the second bullet point, there appears a  
 9 sentence, "As noted last month, 40 million of such  
 10 inter-company receivables has been reclassified to  
 11 funded depreciation assets as such represents a  
 12 receivable to be repaid upon completion of the DVR  
 13 bond refinancing."  
 14 Who made the decision -- am I right about  
 15 that, the way it reads?  
 16 A Yes.  
 17 Q Who made the decision to reclassify  
 18 40 million of intercompany receivables to funded  
 19 depreciation?  
 20 A I don't know who ultimately made that  
 21 decision.  
 22 I know that David McConnell, through  
 23 Steve Spargo, had communicated that change be made.  
 24 Q To you?  
 25 A Either to me, or to probably Jack Nelson or

PAGE 72

353

1 the Delaware Valley Obligated Group series of 1996  
 2 bonds and 9.9 million of additional funded  
 3 depreciation investments were liquidated."  
 4 Do you see that?  
 5 A I do.  
 6 Q Who made the decision to use a portion of  
 7 the DVOG refinancing to repay AGH? If that's what  
 8 this notes reflects.  
 9 A That's what it appears to reflect to me  
 10 and, again, the decision would have been made at the  
 11 David McConnell/Sherif Abdelhak level.  
 12 Q You weren't involved?  
 13 A No.  
 14 Q And you didn't learn who made the decision?  
 15 A No.  
 16 Q Do you know whether any of the creditors or  
 17 insurers for the bond issuance had notice of this?  
 18 A I do not know.  
 19 Q You now have before you Exhibit 546,  
 20 Mr. Adamczak. It's a note from -- a memo, rather,  
 21 from Jack Nelson to Joe Dionisio, dated November 13,  
 22 1996.  
 23 And the subject line is "AGH October 31,  
 24 1996 Financial Statements."  
 25 Is that right?

PAGE 71

352

1 Joe Dionisio, but ultimately through me.  
 2 Q Do you recall why the change was -- the  
 3 classification change was being made?  
 4 A I assumed it was because there was some  
 5 sensitivity, as we spoke about previously, relative to  
 6 money from the west in Allegheny General Hospital  
 7 going to the east.  
 8 Q Sensitivity on the part of those reading  
 9 the financial statements?  
 10 A Yes, and doctors who may not read the  
 11 financial statements, but may not particularly care  
 12 for money from, as they saw it, their hospital going  
 13 to support the eastern hospitals.  
 14 Q They might learn of it from others who read  
 15 the financial statements; is that what you mean?  
 16 A Yes.  
 17 Q I'm handing you now what we've marked as  
 18 Exhibit 536, which is -- again, it's titled "Financial  
 19 Statements Highlights," "Allegheny General Hospital,"  
 20 "Month Ended June 30, 1996."  
 21 Is this a document you recall receiving?  
 22 A Yes.  
 23 Q It notes that, "Additionally, during June,  
 24 49.8 million previously transferred to AHERF for  
 25 DVR cash requirements was repaid from the proceeds of

PAGE 73

354

1 A That's correct.  
 2 Q You got a copy of this at the time,  
 3 roughly?  
 4 A Yes, yes.  
 5 Q On the second page, it attaches another  
 6 "Financial Statement Highlights" for AGH, this one for  
 7 the month ended October 31, 1996; is that right?  
 8 A That's correct.  
 9 Q And in it, in the notes on this balance  
 10 sheet portion of the highlight document, the following  
 11 appears, "Funded depreciation investments increased  
 12 by 19.1 million from September 30, 1996 to  
 13 133.2 million," comma, "such increase is primarily  
 14 related to a \$30 million of intercompany receivables  
 15 reclassified to funded depreciation investments which  
 16 represents an amount related to anticipated  
 17 collections on DVR patient accounts during the  
 18 remainder of fiscal year '97 and 705,000 of investment  
 19 income."  
 20 Do you see that?  
 21 A I do.  
 22 Q Was this another reclassification?  
 23 A Yes, it was.  
 24 Q Do you know who made this decision?  
 25 A I don't.



PAGE 74

355

1 Again, I would again assume it's  
 2 David McConnell or Sheriff Abdelhak.  
 3 Q And when you saw this document, did you  
 4 understand or believe that the reason for the  
 5 classification was -- the reclassification was the  
 6 same as the reason for the prior reclassification?  
 7 A Yes.  
 8 Q And that was to diminish the obviousness of  
 9 the intercompany payable and receivable?  
 10 A Yes.  
 11 Q And the obviousness of that growing  
 12 intercompany receivable was, thereby, lessened by any  
 13 reader of the financial statements, including board  
 14 members?  
 15 A Yes.  
 16 Q Did this trouble you?  
 17 A Yes, it did.  
 18 As a matter of fact, I think at some later  
 19 date, Joe Dionisio expressed our frustration with that  
 20 reclass to Mr. McConnell.  
 21 Q Did you express yours to Mr. Dionisio  
 22 first?  
 23 A I don't know that I needed to.  
 24 I think he had the same frustration right  
 25 off the bat.

PAGE 76

357

1 A That is correct.  
 2 Q And this memo notes that there was, in  
 3 fact, a reversal of certain reclassifications, is that  
 4 right, in its fourth bullet point under the "Balance  
 5 Sheet" heading of page 2?  
 6 Or that such a reversal should take place?  
 7 A What I read this to say is that, and as  
 8 with the process, a draft of the financials were  
 9 sent to Joe Dionisio for approval, that in the draft,  
 10 the 30 million was shown as an intercompany  
 11 receivable, and that Jack is asking in this memo, or  
 12 informing Joe that that's the case, and telling him  
 13 to please inform -- telling Joe to please inform Jack  
 14 if he would like an intercompany receivable reclass  
 15 made.  
 16 Q To funded depreciation?  
 17 A To funded depreciation in the final  
 18 statements.  
 19 Q It's a query?  
 20 A Correct.  
 21 Q Exhibit 548 is a memo from Mr. Dionisio  
 22 himself dated June 6 -- I'm sorry, January 6, 1997, on  
 23 intercompany transfers to a team of finance department  
 24 folks, including yourself; is that right?  
 25 A That's correct.

PAGE 75

356

1 Q How did you learn that Mr. Dionisio  
 2 expressed his frustration to Mr. McConnell?  
 3 A I had seen a copy of the memo.  
 4 Q Do you recall what Mr. McConnell's reaction  
 5 was, if you ever learned of it?  
 6 A I thought it said something to the effect  
 7 that this would be -- and these are my words versus  
 8 his -- corrected by the end of the year so that it was  
 9 no longer -- that any intercompany would no longer be  
 10 reclassified to funded depreciation.  
 11 Q Do you remember seeing some memo to that  
 12 effect from Mr. McConnell?  
 13 A I do.  
 14 Q So for whatever reasons, the  
 15 reclassifications were going on, you, at least at the  
 16 time you received that memo, had some hope that they  
 17 would be corrected by year end?  
 18 A I had an understanding that they would be,  
 19 not a hope.  
 20 Q Mr. Adamczak, I'm now handing you what  
 21 we've marked as another memo from Mr. Nelson to  
 22 Mr. Dionisio that you received, of which you received  
 23 a copy, this one dated December 30, 1996, and it again  
 24 attaches the financial statement highlights for AGH  
 25 this time as of November 30, 1996; is that right?

PAGE 77

358

1 Q Mr. Spargo is directed -- the memo is  
 2 directed to him and Mr. Nelson, as well?  
 3 A That's correct.  
 4 Q I want to give you a second to read the  
 5 memo.  
 6 Have you had a chance?  
 7 A I have.  
 8 Q The final paragraph of the memo reads, in  
 9 part, "you previously advised me that Advances to  
 10 Affiliates" -- that's the intercompany receivable  
 11 we've been talking about; right?  
 12 A That's correct.  
 13 Q -- "should be recorded as other assets,"  
 14 and then parenthetically Mr. Dionisio writes, "as  
 15 opposed to included in Assets Limited or Restricted As  
 16 To Use."  
 17 Is that right?  
 18 A That's correct.  
 19 Q And he then puts the tag on that which  
 20 follows, and I quote, "in accordance with generally  
 21 accepted accounting principles and year end reporting  
 22 requirements."  
 23 Is that right?  
 24 A That's correct.  
 25 Q And then he asked, "Please confirm with